

Analysis of the impact of COVID-19 on micro, small and medium-sized enterprises (MSMEs) in Thailand from competition policy and market access perspectives¹

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¹ This study has been prepared by Mr. Teerawat Charoenrat, Centre for Entrepreneurship, Innovation and SME Development in ASEAN (CEISDA), Khon Kaen University, Thailand; and Mr. Charles Harvie, Centre for Contemporary Australasian Business and Economic Studies (CCABES), University of Wollongong, Australia. Pierre Horna and Elizabeth Gachuiiri coordinated this work with the overall guidance of Teresa Moreira, Head, Competition and Consumer Protection Branch, UNCTAD.

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Executive summary

This report focuses on identifying the impact of Covid-19 on Thai MSMEs at three main levels and policy responses – in aggregate, conducting an MSME survey, and case study interviews. Firstly, it relies upon an empirical analysis of MSMEs in the Thai manufacturing sector at the aggregate level using the 2017 Thai industrial census data to calculate their technical efficiency (see Annex 3). The report also highlights the results of the 2020 UNCTAD MSME survey to make a comparative data analysis at the local level, and then presents results of an depth interview with selected firms. According to the results, sales revenue of MSMEs have been greatly impacted and led to increased demand for temporary sources of financing. Evidence demonstrates that foreign ownership and investment in local enterprises are key to upgrade swiftly firm technical efficiency (competitiveness), technology and engagement in exports. The capital stock and technology of domestic Thai MSMEs needs to be improved.

The study predicts that in the contrary, Thailand will not benefit from the effects of free trade agreements and regional economic integration in general and the likelihood that it will miss the opportunity to achieve inclusive growth and development, a key objective of ASEAN Economic Community (AEC). It is clear from this study that Thai small businesses are aware of these challenges as well as opportunities arising such as appropriate business support measures including that of access to finance, technology, skilled labour, and market information.

1. Introduction

Thai MSMEs have played a significant role and made an important contribution to the economic and social development of the country (Office of Small and Medium Enterprises Promotion (OSMEP), (OSMEP, 2020; Charoenrat and Harvie, 2017a). This contribution has been multi-dimensional in nature and includes contributions to: business numbers, employment, GDP, exports, regional development, economic inclusion and empowerment of women and minorities (Sriboonlue and Puangpronpitag, 2019; Charoenrat and Harvie, 2019; Harvie and Charoenrat, 2015).

From the outset it is important to be clear as to how MSMEs are defined in Thailand. The two most common means of defining an MSME are by: number of employees or annual income. There is no standard definition of what constitutes an MSME as this varies by country, which complicates international comparisons. In the case of Thailand, the Office of Small and Medium Enterprises Promotion (OSMEP) regulation of 7 January 2020 adopted employment or annual income, as criteria in defining Thai MSMEs. The criteria changes, however, according to sector. Thai MSMEs are classified into four business sectors (see Table 1.1 in Annex 1) (OSMEP, 2020):

Based on these criteria and data according to Thailand's Office of SME Promotion (OSMEP)², the country in 2016) had more than 3 million enterprises, of which 99.7 per cent are MSMEs, but only 0.3 per cent, about 9,000 firms, are large enterprises (OECD, 2018).³ This is a similar business production and size structure to that of many other countries in Southeast Asia, but several important observations for Thailand's business structure can be made. First, there is a "missing middle"⁴. Only 15,000, or 0.5% of all enterprises, are medium sized enterprises. Second, there are more large firms in Thailand than there would be in a typical OECD and ASEAN country. There is, therefore, a dominance of large firms in the economy. Third, MSME density in Thailand (at 4.3 MSMEs per 100 people) is only slightly less than the typical density in OECD countries (5 MSMEs per 100 people). Fourthly, while

² Focusing only on the manufacturing sector² (see Table 1.2), almost one-third of MSMEs were in the manufacturing sector over the period 2015 to 2019. Manufacturing MSMEs employed around 26 per cent of the private sector workforce on average during 2015 to 2019 and their contribution to total MSME GDP was 25.10 per cent over the same period (OSMEP, 2015-2019).

³ See Table 1.2 for manufacturing MSMEs.

⁴ Or an under-representation of medium sized firms in the business structure. Medium sized enterprises tend to contribute disproportionately to GDP, employment, exports, and contribution to innovation, as well as participation in supply chains. They are also an important source of growth and future large firms. This under-representation could be due to barriers to growth for micro and small firms at the lower end, resulting in limited progress to being large enterprises at the top end.

MSMEs are quite evenly spread throughout the country, there is a particularly heavy concentration in Bangkok and its environs (18% and 26.7% of total MSMEs respectively), Chonburi (3.4%) and Chiang Mai (3.2%). Fifthly, studies suggest, including this one, that there is a wide disparity of efficiency in MSMEs across the country's regions and sub-manufacturing sectors. Sixthly, MSMEs are mainly in the wholesale and retail trade sector (about 42% of all MSMEs), manufacturing (18%), and hospitality (40%). Finally, and like many other OECD countries, MSMEs in Thailand make disproportionately smaller contributions to employment (80%), GDP (40%) and exports (28%) compared to their overall business numbers (99.7%).

In contrast, large enterprises account for less than 1% of all firms but contribute 60 percent of GDP and 86 percent of total exports (2019) (see Table 1.3 in Annex 1). Indeed, as mentioned previously, there are slightly more large firms in Thailand than is typical in OECD and other ASEAN countries. They dominate the economy, its key sectors, and exports⁵. This lopsided business enterprise production structure is a legacy of the country's economic development strategy adopted during the 1980s and 1990s, which was based on FDI promotion combined with export driven industrialisation⁶. Emphasis was placed on attracting large multinational enterprises. This has important implications for the country's Competition and Market Access.

Policies and regulations aim to address market concentration, ensure competition and market entry, and ensure a level playing field for all enterprises. It is essential to ensure that MSMEs, and entrepreneurial activity in general, can flourish, compete, set-up, survive, grow, enter new markets with the aim of encouraging innovation, productive activity, and the development of new sunrise industries. This became increasingly important as more policy emphasis shifted towards encouraging the growth of MSMEs from the late 1990s. This dominance of large firms in the Thai economy suggests the need for a strong Competition policy to enable small firms to compete, survive and enter new markets, and avoid being dominated/exploited by large firms. With Covid 19 small firms are in an even weaker position now and will require a further strengthening of competition policy to ensure market access. Large firms may attempt to put up market entry barriers otherwise, and to further take advantage of the weakened position of MSMEs.

During the period of the 1980s and 1990s the country also engaged in, what turned out to be, ill-judged and poorly managed capital account liberalisation. While this did facilitate sizeable

⁵ But not in terms of employment.

⁶ Facilitated by the country's reasonably well-developed infrastructure, its open market economy and generally pro-investment policies.

inflows of foreign direct investment (FDI) into the manufacturing sector, as planned, and mainly by Japanese, South Korean and Taiwan multinationals⁷, it also led to a rapid build-up of foreign debt. This FDI strategy enabled Thailand to become a major exporter of vehicles and vehicle parts from the 1980s. By 2016 this sector alone generated around 27 per cent of GDP, contributed massively to employment, exports and the involvement of local MSMEs in industry supply chains. While FDI by large foreign owned firms was beneficial in building up this solid industrial base and productive capacity in targeted sectors, capital account liberalisation undid this as it also facilitated short term capital inflows, mainly in the form of debt, as domestic banks borrowed overseas at lower interest rates to on lend to local borrowers at a higher interest rate⁸. This triggered the Asian Financial crisis of 1997-1998 as much of the domestic borrowing was invested in non-productive assets such as property and real estate stoking a property price boom, and not into productive assets and investment with longer term economic growth benefits that would enable repayment of such borrowings.

By the late 1990s, and with recovery from the AFC put in place, MSME policy became centre stage in the national policy agenda. Several reforms and measures were implemented consistent with this. First, Thailand's policy makers saw the need to diversify and establish a broader base for growth, with MSMEs playing a critical but not exclusive role in this process. A "service delivery" approach to MSME policy was broadly adopted, providing services to help MSMEs increase their competitiveness. Second, there was encouragement of internationalisation and MSME productivity, and third, innovative activities were stimulated with the overall objective of reducing county's exposure to large enterprises operating in "sunset industries".

⁷ The growth in manufacturing in Thailand since 1970 has been especially dramatic, reflecting the large investments made by multinational firms. Although growth was initially led by the garment industry in the 1970s, electronic products took the lead in the mid-1980s, propelled by investment and transfer of production from Japan, South Korea, Taiwan, and Singapore. Since the late 1990s, Thailand has been a notable exporter of motor vehicles and, more recently, telecommunications equipment. While industrial development has been concentrated in and around Bangkok, production has also expanded along the Eastern seaboard and, more recently, into Northern, especially North-eastern, Thailand.

⁸ As part of the liberalization of Thailand's financial markets in the early 1990s, the government established the Bangkok International Banking Facility (BIBF). This was an offshore banking entity that became a major conduit for accessing international capital. Originally intended as a means to establish Bangkok as a major financial centre rivalling Hong Kong and Singapore and serving all of Southeast Asia, the BIBF in essence became a channel through which foreign funds (primarily in the form of short-term loans) could enter Thailand's domestic economy.

2. The position of MSMEs in the Thai Economy

2.1 Economic and business challenges before Covid-19

In a single generation (1950-1973) Thailand moved from being a low-income to upper middle-income status country, primarily via successfully pursuing an export-oriented, FDI-driven industrialisation strategy. The strategy resulted in remarkable GDP growth rates but was impacted severely by the Asian Financial Crisis in 1997-98 which arose from ill-judged and poorly supervised liberalisation of its capital account, financial sector weaknesses and macroeconomic distortions. This resulted in a rapid accumulation of foreign debt and a questioning of the country's capability of meeting its interest payments on this debt as well as repaying the debt itself. Since the crisis, Thailand has engaged in economic reforms that promote MSMEs' competitiveness. However, Thailand's efforts to uplift MSMEs have failed to address the middle-income trap faced by MSMEs. Nevertheless, Thailand can rely on its dynamic economy to find a solution: it has the twelfth biggest automotive industry in the world, and the biggest in Southeast Asia (OICA, 2017). Tourism is another important driver of growth⁹, and is a valuable source of foreign exchange. Thailand can also capitalise on its rice exports at the global level.

MSMEs have faced numerous challenges. As a legacy of its earlier development strategy, there is heavy concentration of business production and exports in the hands of relatively few dominant large domestic and foreign enterprises. MSMEs fail to access tailored sources of financing. This presents a challenge to MSMEs which find it difficult to compete and enter new markets. To diversify the economic base, what is required is to decrease dependence on enterprises operating in sunset industries for output and exports and to promote a more entrepreneurial society. This will require competition and market access policies and regulations that can establish a level playing field for MSMEs. Such policies will prevent their exploitation by large firms, encourage the establishment of new MSMEs, and enhance their growth and survival. Also, competition and market access policies would promote MSMEs' entry into new and innovative markets. As a result, this will boost MSMEs entrepreneurship.

⁹ In 2016, tourism generated more than 11 per cent of GDP.

2.2 MSMEs' contribution to the Thai economy pre COVID-19 pandemic

Prior to COVID19, Thailand's exports heavily relied on large firms,¹⁰ which dominate the Thai economy as data shown in the Annex (see 1.2 in Annex 1). Hence there is an important need for strong competition policy in the country to enable small firms to compete, survive and enter new markets and not be dominated/exploited by large firms. COVID19 severely impacted the competitiveness of MSMEs which may face market entry barriers by large firms.

Large firms contributed 86 per cent of total exports in 2019 with the share of MSMEs declining to approximately 14 per cent compared to 29 percent in 2018. Major factors behind the sizeable decrease in MSME exports are:

- US-China trade disputes
- international protectionist policies (OSMEP, 2020)
- increased frailty of Thai MSMEs in international markets, as they struggled to remain competitive in labour intensive manufacturing activities due to intense competition from rapidly developing but lower labour cost countries such as China, Vietnam, Cambodia, and Indonesia.
- poor technical efficiency performance of Thailand's MSMEs in upgrading their skills, information technology, innovation and value-addition activities and overall competitiveness (Sriboonlue and Puangpronpitag, 2019; United Nations, 2020a; Charoenrat and Harvie, 2019).¹¹

Thailand can be described as in a "middle income trap" where it has lost its competitive advantage in low wage cost manufacturing due to rising wages and poor productivity. At the same time the country has been unable to break into higher-value-added activities and markets which require more knowledge, innovation, creative and skill intensive activities, due to low investment (e.g. in infrastructure and education), slow growth in the manufacturing sector of the economy, limited industrial diversification and poor labour market skills and conditions. As a result, the Thai economy has been stagnating.

¹⁰ With Covid 19 small firms are in an even weaker position now and will require a further strengthening of competition policy to ensure market access. Large firms may attempt to put up market entry barriers otherwise, and to further take advantage of their weakened position their business dealings with them.

¹¹ The poor efficiency performance of Thailand's MSMEs is discussed in more detail below.

Thai MSMEs face some barriers which hinder growth and development. These barriers are explored in more detail below.¹² Thai MSMEs, however, still play an important role in assisting large domestic and foreign firms as sub-contractors, particularly in the context of regional production networks (OSMEP, 2019; Charoenrat and Pholphirul, 2020; ADB, 2018). By acting as key sources of goods, services and information for large firms, MSMEs also play a significant role in the production process of export goods (UNCTAD, 2010; Yuhua, 2014; Charoenrat and Harvie, 2017a) because MSMEs provide flexibility for large firms in meeting changing market demands.

Another key issue faced by MSMEs relates to tax compliance. To comply with tax regulations, companies must file 21 payments per year, taking around 262 hours in total. This amounts to around 28.7% of total profits. The number of payments and the time required to complete them is high by the standards of OECD high-income countries, where 10.9 payments take 160.7 hours on average. The payment of VAT is not required until an enterprise records THB 1.8 million turnover per annum, and therefore many smaller enterprises are not subject to VAT. Payment of corporate income tax accounts for both the highest share of hours (156 in total, more than double the time required to complete the remaining 20 tax payments) and the highest tax wedge on profits (20.6%).

Thailand has implemented measures to facilitate the filing of taxes and to ensure tax compliance. To improve filing taxes, the government could reduce the number of payments and the time required to complete them, particularly for corporate income tax. This can be achieved by streamlining e-governance platforms. While online platforms are available for filing tax and social security and pension contributions, these procedures remain burdensome due to the lack of a single online platform. To facilitate filing, the government could consolidate the platforms of different agencies and ensure that data is available. It could also integrate Thailand's e-signature into more services.

Thai manufacturing MSMEs have not demonstrated their ability to be ready to face international competition in both domestic and regional markets. MSMEs have failed to take advantage of the opportunities arising from the country's increased opening and economic integration and engagement with the region (e.g. with ASEAN), nor to address intense

¹² Such factors include access to government finance and credit institutions (bank) financial support to upgrade technology and engage in innovative activity, upgrading labour force skills, addressing poor exporting capacity, limited marketing experience, limited participation in regional and global production networks, limited use of information technology and e-commerce, limited managerial skills, and government bureaucracy, corruption and regulations.

competition from lower labour cost countries (Charoenrat and Harvie, 2017b; Charoenrat and Harvie, 2017a)¹³. Thai business segments, particularly MSMEs, are currently experiencing the so-called “*Nut-Cracker Effect*”. This implies that Thailand is now trapped between countries with lower price/wage competitiveness (China and Vietnam), and with those involved in higher value addition, knowledge and innovative production and services (Japan and South Korea) (Sriboonlue and Puangpronpitag, 2019; Chaochotechuang and Mariano, 2016; UNIDO, 2020). Internationalisation should be seriously promoted for Thai MSMEs, especially those engaged in manufacturing. While Thai MSMEs in general have made, and continue to make, a pivotal contribution to the social and economic development of the country (OSMEP, 2020; Charoenrat and Harvie, 2019), MSMEs now must engage in higher value addition, knowledge and skill intensive activities to address the middle income trap MSMEs are currently facing.

In addition to challenges resulting from COVID19, MSMEs attempt to escape the middle-income trap by shifting from being low-cost manufacturing (i.e. electronic and automotive parts) into more advanced and high value addition which involves knowledge, skill and innovation orientated activities. This will require broader based and deeper sources of finance for MSMEs, aimed at addressing their low productivity, low efficiency and low competitiveness, low export activity, lack of participation in global and regional production networks, and poor-quality products. The objective of the government is to achieve high income status by 2026, which is at the end of the country’s 13th national economic and social development plan. Achieving the plan will also be conditional on achieving structural reforms.

To achieve the longer-term development objectives including boosting MSMEs competitiveness, the government has put forward numerous strategic plans in line with the philosophy of the “sufficiency economy,” introduced under the 9th economic plan, and achieving SDGs.¹⁴ For instance, the National Strategy (2017-2036) proposes MSME-specific policies under its second pillar, “enhancing competitiveness”. A range of financial measures are proposed, such as creating an MSME credit rating database, tax amnesties and access to finance programmes, along with the creation of enhanced service centres, policies to increase linkages between MNCs and MSMEs, and measures to support the development of MSMEs operating in the digital economy. This is complemented by efforts drawn from the Thailand

¹³ Thailand would not wish to engage in competition with countries in the low labour cost segment, as driving down labour cost to remain competitive would not produce benefits in terms of improved real income and a rising standard of living for its population.

¹⁴ 12th National Economic and Social Development Plan (2017-2021).

4.0 new economic model. This model identifies priority sectors and targeted intervention to support development during the infancy stage to boost the country's innovative capacity along the country's Eastern Economic Corridor (EEC).

2.3 MSMEs Policy Support in the Thai economy

Since the late 1990s Thailand has made efforts to diversify the economy, encourage more innovation and an entrepreneurial activity, and place less reliance on large firms operating in sunset industries. The aim is to increase the contribution of SMEs to national income and employment. MSMEs account for 42.2 per cent of GDP and 80% of employment. Under the fourth MSME Promotion Plan (2017-2021), Thailand aims to increase this contribution to at least 50 per cent of GDP by 2021 via policies aimed at increasing internationalisation, clustering, innovation, and the adoption of new technology. Thailand reflects its advanced level of policy development in promoting its MSMEs to expand globally (see Annex 2). Despite these efforts, however, large firms still dominate GDP and exports and there is heavy concentration in many key sectors.

Fourth Plan (2017 – 2022) strategies and associated objectives

- (1) Enhancing MSME data integration in Thailand with big data; integrating budget plans and monitoring results to ensure full coverage of MSME promotion agencies; building cooperation to promote MSMEs domestically and internationally; develop tools to analyze and estimate economic impacts to be used for at least one topic/model/year.
- (2) Developing a mechanism to promote MSMEs in the local economy; developing factors contributing to MSMEs development and growth; improving the services of One Stop Service (OSS) centres and related government policies; developing ICT, MSME connect tools to serve MSMEs.
- (3) Enlarging and internationalizing an entrepreneurial society, promoting start-up or early-stage business; promoting MSME clusters and internationalization; promoting the deployment of digital technology innovation and business transformation.
- (4) Driving the Office of SMEs Promotion (OSMEP) into a high-performance agency; restructuring the organization in line with corporate roles and missions; upgrading the administration to turn OSMEP into a smart organization; gearing the organization towards effectiveness and good governance.

Source OSMEP, 2018

The MSME policy environment in Thailand is determined within the context of MSME promotion plans¹⁵ as presented above. Currently, the government pushes forward MSMEs' growth and sustainability as part of its the fourth plan (2017-2022) by focusing on following key economic targets: raise the share of MSMEs in GDP to more than 40 percent and surpass the 42.2 percent mark; achieve higher MSME export shares; increase the total factor

¹⁵ The plans are forward looking, based on the key challenges/priorities as viewed by policy makers and what they wish to see achieved over 5 years duration of each plan.

productivity of MSMEs by an average of 5 percent annually, including a minimum of 5 percent labour productivity growth per annum (OSMEP, 2018). Measures specifically targeting manufacturing MSMEs for the period 2017 to 2022 include: 1) improving product quality; 2) establishing business incubator centres in regional and local areas; 3) establishing trade fairs; 4) setting up exhibition centres for MSME products throughout the nation; 5) improving the logistics or distribution channels; 6) and establishing industrial clustering and networks (OSMEP, 2018).

The Super Clusters initiative has allowed Thailand to develop its key industries. Seven provinces have super clusters for automotive parts, electrical appliances, electronics, and telecommunications: Ayutthaya, Pathum Thani, Chonburi, Rayong, Chachoengsao, Prachinburi and Nakhon Ratchasima. The cluster policy is co-ordinated by various ministries including Industry and Finance. Enhancing SME integration into GVCs through tax incentives and matchmaking initiatives is articulated as a strategy in OSMEP's 4th SME Promotion Master Plan 2017-2021.

Cluster-based Special Economic Development Zones Policy came into effect on 16 September 2015 and aims at encouraging SME linkages with large companies and MNCs through industrial clustering policies and related to the incorporation of MSMEs in value chains. Investment incentives for industrial clusters include corporate income tax exemptions and import duty exemptions on machinery. The tax incentives are greater for industries developed under a Super Clusters strategy rolled out for areas of business using advanced technology in the production process. Companies also enjoy personal income tax exemptions for renowned specialists who work in the specified area. To tap into the cluster incentives, companies must co-operate in developing human resources or technology as approved by BOI, support technology and knowledge transfers to Thai SMEs and ensure a supply of skilled workers in the future.

In addition, to promote the MSME Promotion Plan, the Government should push for further streamlining of customs and cross-border trading regulations and the developing of specific cross-border trading assistance for SMEs. In working to achieve greater market access and internationalisation for MSMEs, Thailand must continue its focus on promoting exports. The Department of International Trade Promotion (DITP), under the Ministry of Commerce, should work in close collaboration with OSMEP to boost the exports and trade expansion of Thai MSMEs. Major MSME export promotion schemes should be further encouraged, and include:

1. MSME participation in major trade fairs, such as Inacraft, an international handicraft trade fair in Jakarta, and Texworld, an international textile trade fair in Paris. DITP aids the participation of Thai MSMEs in more than 100 international trade fairs each year.
2. establish offices overseas, there are already some 40 such offices, overseas to expand and promote Thai products.
3. OSMEP to further assist MSMEs prepare to expand into international markets and connect with regional business networks.
4. OSMEP's One Stop Service Centres to provide free consultations on product development and marketing strategies to support MSME internationalisation.
5. Partnering with large companies and multinational corporations (MNCs). The one stop centre provides MSMEs with assistance in accessing specific international markets.
6. Integration of MSMEs into Global Value Chains (GVCs) (indirect exporting).

As one of the main manufacturing bases in Southeast Asia, especially in the production of auto parts and electrical and electronic goods, Thailand has maintained its strong supply-chain support for local businesses involved in each production stage, with a special focus on MSMEs. The chief government agency to encourage MSME integration into global value chains (GVCs) is the Board of Investment (BOI). The auto and auto parts industry are an excellent example of how targeted investment policies and linkages with local MSMEs in the value chain can lead to a globally competitive and successful export industry. The Department of Industrial Promotion should further implement programs aimed at increasing the value added of SME outputs by strengthening their capacity to link with GVCs, particularly in the production of automotive parts, automatic engines, and robotics.

3. Factors impacting the efficiency of MSMEs

3.1 The competitiveness of Thai manufacturing MSMEs

In the previous section, the study identifies the significance of MSMEs to the Thai economy and their future challenges and opportunities in domestic and regional markets. To take advantage of future opportunities, MSMEs must be competitive in both domestic and international markets. A key measure of MSMEs' competitiveness is their ability in transforming inputs into outputs.

This section focuses on estimating the performance efficiency (which comprises of technical efficiency) and competitiveness readiness of Thai manufacturing MSMEs at the national level,

the sub manufacturing level, the provincial level¹⁶. The average technical efficiency of all categories of Thai manufacturing MSMEs in 2017 was 0.54 percent. Numerous firm specific factors have been identified¹⁷ as impacting on the efficiency of MSMEs and manufacturing MSMEs more generally. These include competition authority; competition law and policy; firm age; firm size; region of location; foreign investment; export intensity; government assistance; market access initiative; and adoption of online platform¹⁸. Empirical results based on a survey of 54,895 firms show that there is considerable room for improvement in efficiency across all sub manufacturing sectors (See Annex 5 and 7).

3.2 Trade competition policy

While MSMEs are a major component of the Thai economy in terms of employment, business establishments and GDP, MSMEs face several severe disadvantages. These act as a barrier to further development and result from MSMEs' limited size and resources. Such factors include: a lack of human resource development; inadequate skilled labour; limited marketing skills; lack of access to information technology; limited access to information and promotion from public agencies; and difficulties in gaining access to government funding and credit institutions, due to MSMEs limited size, lack of fixed assets, and lack of business plans (Sriboonlue and Puangpronpitag, 2019; UNIDO, 2020). For these reasons, MSMEs are seen as unattractive to lending institutions (mainly banks - example of market failure).

In addition, MSMEs face a high likelihood of failure¹⁹ arising from a lack of experience, insufficient capital invested by the owner, an over-reliance on external funds, and poor record-keeping. Therefore, Thai MSMEs must build their capacity through strengthening and improving their cooperation and integration with both domestic and international firms. MSMEs should participate in global production networks, with the aim of maintaining competitiveness in an international market and enhancing their knowledge and technology to

¹⁶ This section analyses factors that contribute to performance efficiency by relying on national data for the year 2017, an MSME survey and in-depth case study interviews. Technical efficiency estimation is conducted for both aggregate manufacturing MSMEs, and for sub-manufacturing sectors of operation classified by the Standard International Trade Classification (SITC) Revision 4 in the Annex 7.

¹⁷ Data compiled from the 2017 industrial Census of Thailand will be used for the empirical analysis conducted in this report at the aggregate manufacturing and sub manufacturing levels supplemented by an MSME survey and in-depth interviews at the provincial level. Based on two econometric models (SFA and DEA – see Annex 5, 6 and 7) to measure the technical efficiency and competitiveness of Thai MSMEs.

¹⁸ The variables used are generally determined by the focus of this report, the judgment of the researchers and data availability.

¹⁹ MSMEs experience a high degree of “churn” or turnover. Which, again, makes them unattractive to lend to by banks.

compete in an increasingly competitive and integrated regional and global economy (United Nations, 2020b; Charoenrat and Harvie, 2019).

Office of Trade Competition Commission (OTCC)

The Trade Competition Act (TCA) B.E. 2560 (2017) 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 competition²⁰ (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 the country (ASEAN, 2021). Focusing on the Office of Trade Competition Commission (OTCC) (2020), it is a responsible authority for the enforcement of the competition law in all sectors in Thailand, in coordination with sector regulators.

The OTCC issues guidelines that aim to prevent wholesalers, retailers, and franchisors from engaging in unfair trade practices with their business partners and large domestic and international firms which dominate certain markets (Surakitjakorn and Lalitkomon, 2020). A recent example of these was a notification that deals with the determination of unfair trade practices in wholesale and retail businesses. Notification regarding the guidelines for the consideration of unfair trade practices in a wholesale and retail business came into force on 20 July 2019. It has stated the criteria for the consideration of unfair trade practices and provides a list of the types of conduct that wholesalers and retailers (for example, hypermarkets, department stores, supermarkets, convenience stores) are prohibited from undertaking in their dealings with manufacturers or distributors, including importers and weaker domestic MSMEs. These types of prohibited conduct can be classified into eight categories as in the following (Surakitjakorn and Lalitkomon, 2020; Office of Trade Competition Commission (OTCC), 2020):

²⁰ 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. 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.

1. Unfairly fixing a low purchasing price from the manufacturer or distributor, including forcing the manufacturer or distributor to provide a discount for products already delivered;
2. Unfairly demanding economic benefits from the manufacturer or distributor;
3. Unfairly returning the purchased goods without a justifiable reason;
4. Unfairly setting contractual conditions in the consignment agreement;
5. Unfairly forcing the manufacturer or distributor to purchase goods or services without a justifiable reason;
6. Unfairly assigning duties to the personnel of the manufacturer or distributor without prior agreement or the consent of the manufacturer or distributor;
7. Unfairly refusing to accept products that are specifically ordered or made for the wholesaler or retailer for instance, private brand, house brand; and
8. Other unfair trade practices that may cause damage to a manufacturer or distributor, such as delaying payment for the purchase of goods, refusal to deal in, or delisting of stock.

MSMEs are particularly exposed to such practices in their dealings with large and dominant firms in markets in Thailand. They require protection under the law.

Recent enforcement under the Trade Competition Act (TCA) 2017

A recent case occurred in 2019, involving an energy drink manufacturer, namely M-150 Company Limited that had a dominant position in the energy drink market. The M-150 Company Limited was alleged to have prohibited its distributors, mainly MSMEs from selling the products of its competitors. The OTCC ruled that this manufacturer had committed an offense by abusing its dominance, in contravention of the Trade Competition Act (Surakitjakorn and Lalitkomon, 2020).

The OTCC also found that the M-150 Company Limited is in a dominant position in the energy sales market as it has control over more than 50 percent of market sales in Thailand. It considered this action to be unreasonable as it had caused damage to agents, mainly MSMEs. A fine was imposed on the M-150 Company Limited for utilizing market dominance to restrict fair competition. As a result, the OTCC imposed aggregate fines of approximately THB 12 million, consisting of separate THB 6 million fines on both the company and the company's director (Surakitjakorn and Lalitkomon, 2020).

The OTCC has issued a ruling on Toyota Motor Thailand Co., Ltd. (Toyota) case in 2019. They had circulated a notification to all of its agents to prohibit the sale of "Toyota Altis Hybrid" model where it was for modification as a taxi car. Toyota has prohibited its agents, mainly MSMEs from selling Toyota's cars out of his or her designated territorial market in Thailand. The OTCC expressed that that the Toyota case did not violate the TCA as follows (Bunruangthaworn et al., 2020):

1. the prohibition of sale, where it was for the modification of the cars as taxi cars, was to preserve the brand's image which is for the purpose of maintaining the position of the product and satisfying customers;
 2. Toyota's agents were prohibited to conduct their business or marketing activities outside of their territorial market, but customers were not restricted in buying the products in different territorial markets.
-

Even though, TCA does not explicitly provide for exceptions to the prohibitions under the act, given the ruling in the Toyota case, it can be observed that where it is for the preservation of the position and image of a product and customer satisfaction, which may restrict some operators' trade opportunities. The OTCC can rule such restriction as a fair trade practice. The ruling also reflects that if such conditions were not made to restrict customers or is against customer's rights, conditions will not likely be deemed as an unfair condition that causes damage to other operators and will not violate the provisions of the TCA. Finally, the Toyota case implies that the OTCC can utilize their discretion on a case by case basis in deciding on the extent and exception of the interpretation of the TCA (Bunruangthaworn et al., 2020).

Unfair Trade Practices: Buyers

This case involved two buyers of agricultural products which occurred during the enforcement of the 2017 TCA. The OTCC ruled that the buyers had engaged in unfair trade practices by threatening other prospective buyers, mainly MSMEs and prohibiting them from purchasing agricultural products from sellers based in the same area as the offenders. The OTCC imposed a THB 25,000 fine on the offenders, initially calculated as 10 percent of the offenders' total turnover during the period of the offense and further reduced by half due to the offenders' cooperation and in light of it being their first offense ([Surakitjakorn and Lalitkomon, 2020](#)).

Another case occurred under the 1999 TCA. A hypermarket operator launched a promotion in 2011 that customers could exchange a competitor's coupon with its own coupon for double the value. The hypermarket operator was found guilty of engaging in unfair trade practices under section 29 of the 1999 TCA during January- August 2011. It is important to state that it is difficult for MSME retailers to compete with this. However, the OTCC did not impose a criminal fine on the hypermarket operator, as the 1999 TCA had already been repealed when the OTCC's decision was finally made. The OTCC also could not impose an administrative fine under section 57 of the TCA, as this would have been contrary to the principle of non-retroactivity ([Surakitjakorn and Lalitkomon, 2020](#)).

4. Key issues facing Thai manufacturing MSMEs

4.1 Limited Access to Finance

There is obvious evidence to support the contention that MSMEs face many severe problems in accessing finance, mainly related to their limited resources, inadequacy in business operation and perceived risk by lenders²¹ (Harvie, 2011; Yuhua, 2014; Sharma and Kautish, 2019). Harvie and Charoenrat (2015) also point out that access to finance is a crucial factor affecting the competitive readiness of MSMEs. This in turn determines their ability to fully exploit and participate in the international market. In addition, MSMEs can take advantage of business opportunities stemming from regional economic integration and participate in global production and supply chains (GVCs).

Within the context of Thailand, a large number of 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). 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. MSMEs mainly rely on commercial banks to access funding. But as indicated commercial banks consider them as risky and tend to impose credit constraints. This is where Credit Guarantee Fund (CGF) initiatives sponsored by the government are so important to reduce the risks of lending to Thai MSMEs. MSMEs' lack of interaction with financial markets and institutions has caused several problems for Thai MSMEs (Charoenrat and Harvie, 2017b). For example, a lack of efficiency, usage of out dated technology, poor innovation, inadequate funds for investment and a lack of integration into domestic and international value adding production networks (Malarvizhi et al., 2019; Sharma and Kautish, 2019).

Due to their small size, limited resources, lack of transparency, perceived high risk and likelihood of bankruptcy, high cost of assessing loan viability, small firms are not perceived as financially sound, or profitable customers for commercial banks. This can result in credit rationing for smaller firms (see Stiglitz and Weiss (1981)). Small firms are then unable to obtain the finance they need to grow their business, invest in R&D and new technology, improve their efficiency, contribute to GDP growth, exports and generate more jobs even if they have

²¹ Market failure can arise from this, with MSMEs subject to credit constraints and an inability to obtain funds for investment even for profitable projects.

profitable projects in which to invest. This is an example of market failure which can be compounded by the effects of COVID 19. In this situation, the government needs to identify appropriate measures to address these exceptional and longer-term financial needs and requirements if the middle-income trap is to be overcome by MSMEs.

Credit lines are provided only for working capital loans. They are normally provided for specific purposes, and the amount allocated fluctuates year by year. MSMEs should be able to benefit from access to dedicated credit lines as other businesses. To address risks associated with MSME lending the Thai Credit Guarantee Corporation (TCG) was established in 1991 as a portfolio scheme under the Small Industry Credit Guarantee Corporation Act. Initially it had subscribed capital of THB 400 million (USD 12.7 million). It has since received five further capital injections, bringing total subscribed capital to THB 6.8 billion, of which 98 per cent is paid-up capital. As of January 2018, this entity had provided 396,122 guarantees amounting to THB 67.5 billion in total.

Enterprises operating in the services sector accounted for the highest share of guarantees outstanding (20.2 per cent), followed by manufacturing (13.0 per cent). Access, however, has been highly skewed towards the Greater Bangkok region, which accounts for 40.3 per cent of guarantees outstanding, compared to 15.6 per cent in Northeast Thailand, which received the second highest share (TCG, 2018). Although the scheme is a public-private partnership, the government holds most of the shares (95.49 per cent are held by the Ministry of Finance, and 4.51 per cent by public and private financial institutions). The TCG is monitored by the Bank of Thailand, the Fiscal Policy Office, and the State Enterprise Policy Office (since it is classified as a state-owned enterprise). If Thailand's recovery from COVID and addressing its middle-income trap is to be achieved, such a credit guarantee scheme should be given priority to address the issue credit rationing to MSMEs.

Alongside schemes to support commercial bank lending, two specialised public institutions provide finance for MSMEs in Thailand. The first is a development bank designed to address the financial needs of MSMEs, the Small and Medium Enterprise Development Bank of Thailand (SME Bank), which has been operational since 2002. This bank operates under the Ministry of Finance, and provides credit, advisory and other add-on services for MSMEs which would not be seen as profitable for commercial banks. The second is the Export-Import Bank of Thailand (EXIM Thailand), which was established in 1993 with an initial capital injection of THB 2.5 billion. EXIM Thailand offers short-term and long-term credits, in both local and

foreign currency. Its programs targeted at MSMEs include the Exim Instant Credit Super Value, which was announced in 2017 and supports firms in obtaining product certification. EXIM Thailand recently partnered with the SME Bank to increase its support for SME development: the two institutions signed an MoU at the end of 2017.

While Thailand's financial intermediation level is high, and scores well on the OECD SME policy index (see Annex 8), with domestic credit to the private sector amounting to 147.3 per cent of GDP in 2016 and MSME loans accounted for 34 per cent of total bank loans extended by private banks, or USD 153 billion in 2017 (World Bank, 2016). Surveys suggest, including our own MSME survey, that a relatively high share of small enterprises (44.8 per cent) have had loan applications rejected, in contrast to their larger peers (World Bank, 2016). This may indicate the existence of credit rationing (lending gap) due to market failure for the reasons discussed previously and the low creditworthiness and limited collateral of small and micro firms. The MSME survey indicated that access to finance is a critical issue for them during the period of the pandemic if they are to survive it will also be essential for MSMEs to grow, invest in new technology and capital equipment and achieve the longer-term developments set for them by the government.

Despite the numerous efforts made by the Thai authorities there still appears to be a problem for MSMEs to access finance, and alternative financing instruments should be considered. But a comprehensive regulatory framework for alternative financing instruments is still missing in Thailand. It is recommended that the Bank of Thailand and the Standard Exchange Commission continue regulatory experimentation to see how different rules could assist or inhibit growth of the sector. Other possible sources of finance should be considered such as the ones mentioned below.

Microfinance

Thailand has a relatively deep microfinance sector, with one of the world's largest country-based microfinancing schemes. This is the government-sponsored Village and Urban Revolving Fund, a network of 80 000 village banks with 8.5 million borrowers as of 2011 (The Economist, 2013). Thailand has also been implementing a program to enhance the regulation and product offerings of microfinance institutions operating in the country via its Master Plan for Financial Inclusion, which began in 2015 and ran until 2018. This program aims to increase the volume and range of microfinance products provided by specialised financial institutions.

Asset based financing products

The country's relatively wide range of available asset-based financing products are regulated under Article 4 of the Financial Institutions Businesses Act B.E. 2551 (2008). Prior to 2004, only separate companies could provide factoring instruments, but banks are now also able to provide this product. Thailand has the second highest factoring volume in ASEAN after Singapore. It registered total factoring turnover of EUR 4 414 million in 2015, mostly (99 per cent) directed at the domestic market, and had 16 specialised factoring companies (FCI, 2017). Despite the relatively high volume of asset-based financing instruments extended (compared to Thailand's regional peers), they are not used on a substantial scale by MSMEs. Reforms to the country's secured transaction framework, via the introduction of the Business Collateral Act in 2016, aimed to increase the use of asset-based financing instruments by smaller enterprises.

Equity financing

Thailand has a relatively deep stock market. The Stock Exchange of Thailand (SET) was established in 1975, and today its market capitalisation stands at around 106.4 per cent of GDP (World Bank, 2015), with high stock market turnover (72 per cent). Although equity financing is growing it is still relatively shallow and the market is particularly less developed for early-stage financing. There are currently six registered private equity funds in the country, and some equity instruments are regulated under the Securities and Exchange Act B.E. 2535 (1992). In 2015, the cabinet tasked three government banks – Krungthai Bank, the SME Bank and the Government Savings Bank – to establish the SMEs Private Equity Trust Fund, worth THB 2.3 billion (USD 65.6 million).

There is currently no comprehensive regulatory framework in place for venture capital (VC) financing. Two types of VC firms can currently operate in Thailand. First is a "VC fund," similar to a mutual fund, whereby major investors and institutional investors can invest in SMEs. These funds are under the purview of SEC, and a number of VC funds already operate in Thailand, including Intouch and Digital Venture. The second is a "VC company," which is under the purview of the Ministry of Commerce.

The government is trying to attract VC investors via instruments that include tax exemptions (under a royal decree issued under the Revenue Code Regarding Reduction and Exemption from Revenue Taxes, No. 597/2016). Thailand's approach to catalysing private equity and VC financing is clearly linked to its diversification and Thailand 4.0 strategy: tax exemptions apply only to investments in R&D-based and technology-based companies, certified by the National

Science and Technology Development Agency (NSTDA), and the MSMEs Private Equity Trust Fund can invest only in high-growth start-ups, technology-based MSMEs and suppliers to government or large enterprises. In 2017, ten VC deals were finalised in Thailand, with an aggregate value of USD 59 million (Preqin, 2017).

A junior board for MSMEs is in place, the Market for Alternative Investments (MAI), on which 151 firms were listed with a total market capitalisation of THB 314 billion (around USD 10 billion) as of February 2018. Between 2012 and 2016, the Securities and Exchange Commission (SEC) ran two public programs to increase the number and type of MSMEs that were listing on the MAI: one was targeted at increasing geographic representation (the Scheme of the New Stock, Pride of the Province, or IPOPOP), and the other at increasing the number of listed SMEs from more nascent industries (the Scheme of Creative Innovation Stock, Pride of Thai, or INNO). The Department of Industrial Promotion is currently running a program preparing entrepreneurs to list on the MAI within three years of program inception.

Financial instruments

As mentioned previously Thailand does not yet have comprehensive financial framework conditions for supplying finance. It performs well on indicators of financial soundness and product availability but needs to undertake additional steps to enhance the legal and institutional environment for getting credit, particularly in the area of creditor rights. An important issue in the current COVID context. For SMEs to grow and develop it is essential that the financial sector contains the necessary breadth and depth of instruments to meet the MSME sector if they are to both survive 1) the current COVID crisis and shortage of finance/liquidity that MSMEs currently face as indicated in the MSME survey and from the in depth interview case studies and 2) to obtain long term funding goals to enable them to contribute to long term development goals including addressing the country's middle income trap.

For debt financing, facilities to assess and hedge against credit risk are available and have significantly improved over the past few years. A credit reporting system is in place, and it currently covers 56.6% of the adult population (in 2017, compared to 21.7 per cent in 2007) (World Bank, 2017). Credit information is provided by private credit bureaus, which compile at least two years of positive and negative data that can be accessed online. The ability of financial institutions to utilise contracting elements such as securitisation to mitigate credit risk has been significantly enhanced by the introduction of the Business Collateral Act in July

2016. This act broadens the range of assets that can be securitised and the enforcement rights of secured creditors. Previously only a pledge or a mortgage could be used as a security and only land or buildings could be mortgaged. Assets could not be securitised as a floating charge, and assets such as raw materials, unregistered machinery or intellectual property could not be securitised.

The new range of eligible securities should boost access to finance for certain types of enterprise, such as higher-technology innovative MSME start-ups (whose main asset may be their intellectual property) or agricultural enterprises (which may now be able to securitise crops, for instance through a warehouse receipt scheme or certain types of agricultural machinery). In addition, secured creditors are now paid first in the event of either business liquidation or a debtor defaulting outside an insolvency procedure. Thailand has also strengthened its movable assets register. Other contracting elements such as out-of-court procedures are possible. But enforcing a contract takes around 420 days, compared to the best regional performer, Singapore, where it takes just 164 days (World Bank, 2017).

4.2 The influence of marketing on the international competitiveness of Thai MSMEs

Most Thai MSMEs are not well-prepared for both domestic and international markets. The role of marketing is one of the most significant factors affecting MSMEs' success and prosperity (UNIDO, 2020; OECD, 2020). The marketing efforts of MSMEs are frequently not fully competitive in the global market because of their inability to increase the value-added content of their products, distribution channels, and market penetration (Charoenrat and Harvie, 2017b).

Thai MSMEs primarily remain in the domestic market. Thai MSMEs face intense competition from large firms and from imported products, such as from the modern trade discount and convenience stores (OSMEP, 2020; Chaochotechuang and Mariano, 2016). MSMEs struggle with intense competition in international markets because MSMEs are affected by their reliance on primarily low-skill low-value-adding activities, and the existence of tariff and non-tariff barriers in global markets (Sriboonlue and Puangpronpitag, 2019; Charoenrat and Harvie, 2019). These factors add disproportionately to their costs.

4.3 Barriers to Exports

Thai MSMEs have internal barriers that impede their export performance, such as a lack of managerial export experience and weak planning systems (Charoenrat and Harvie, 2019).

MSMEs lack knowledge and information about exports due to limited networking skills which hinders their ability to expand into new domestic and international markets (Sriboonlue and Puangpronpitag, 2019; UNIDO, 2020). Export density as shown in the results are positively associated with technical efficiency both in aggregate for MSME and for sub-manufacturing sector SITC2, SITC8 but negatively for SITC6 (see Annex 5). MSMEs use less formal market research on international market opportunities due to high costs.

Thai MSMEs also encounter greater challenges in the global market than large firms, because they lack access to information and increased competition. MSMEs are not well equipped to survive in the global market (Charoenrat and Harvie, 2019) and to compete with MSMEs in other countries such as Japan, China, Malaysian, Taiwan because MSMEs are involved in labour-intensive, low-skill, low-value-adding activities relying on outdated technologies (Chaochotechuang and Mariano, 2016; Sriboonlue and Puangpronpitag, 2019).

To encourage international trade, Thailand has established basic infrastructure. The Thailand Customs Department, under the Ministry of Finance, provides information on its website on import-export requirements, tariffs, and available free trade agreements (FTAs). Thai Customs also established a call centre, the Customs Care Centre, as an enquiry point for customs information. A separate website, the National Trade Repository, was established under the Ministry of Commerce as an information gateway on Thailand's trade in goods and services and e-commerce.

To strengthen Thailand's competitiveness in international trade, the country established an e-customs system in 2014: the National Single Window (NSW). As of December 2016, 26 government agencies had completed electronic data integration under the NSW for customs formalities for goods or documents. Thailand has conducted training sessions and seminars on use of the NSW and Thai Customs services. However, specific initiatives to help MSMEs to deal with customs procedures and to use trade facilitation services have not been defined.

To further support international trade, Thailand implemented an Authorised Economic Operator (AEO) programme for exporters/importers and customs brokers in 2013 to facilitate trade. However, the programme has no incentive or support mechanisms for MSMEs to access these AEO programme.

4.4 Limited Information Technology (IT) and challenges to digital economy

Thai MSMEs lack the tools to access and adopt e-commerce platforms for their businesses. Most Thai SMEs still employ a traditional style of business operation(Chaochotechuang and

Mariano, 2016). The majority of MSME entrepreneurs and employees have low education and skills. This hinders their ability to incorporate IT tools in their businesses and to participate in production networks where the employment of e-commerce is generally a requirement (Sriboonlue and Puangpronpitag, 2019). Despite Thai government efforts to assist SMEs with technological support such as with the Software Park project (Sriboonlue and Puangpronpitag, 2019), MSMEs still face obstacles in applying IT skills to their business models. Many MSMEs were not aware of the benefits from IT services provided by government agencies and cannot compete with the IT developments used by large firms (OSMEP, 2019) such as simplified work processes, savings in production costs, and customer reach expansion (Sriboonlue and Puangpronpitag, 2019).

The Thai economy still faces obstacles regarding the use of e-commerce for MSMEs. Thailand recognises the need to maximise the use of digital technology to drive the country forward and is conducting extensive reform in this area. The Thailand Digital Economy and Society Development Plan is the country's blueprint for digital innovation. The plan, known as Digital Thailand, was co-developed by the Ministry of Information and Communication Technology (MICT) and the Ministry of Sciences and Technology (MOST). In 2016, the new Ministry of Digital Economy and Society (MDES) replaced MICT, with a mandate to implement the plan and encourage all economic sectors to use digital technology within five years. In 2017, the Digital Economy Promotion Agency (DEPA) was established to promote and support the development of digital industry and innovation. Further progress on this will be essential to expand market access for MSMEs both domestically and internationally.

The Digital Thailand plan emphasises the use by MSMEs of digital technology, including e-commerce platforms. The plan aims to strengthen the Thai economy within ten years by equipping MSMEs. In the first phase, the government has focused on deploying broadband to all villages to ensure equal access to the internet and e-commerce platforms. By February 2017, MDES had installed high-speed internet networks in 99 villages in 13 provinces and a free Wi-Fi zone was established in each village (Inside Thailand, 2017). There have also been initiatives to provide coaching and assistance for MSMEs to go online. To implement the plan, a Digital Economy Development Fund was being set up from the annual fiscal budget.

The Thai government has also collaborated with leading e-commerce platform providers. One example is Thailand's 2016 agreement with Alibaba Group to help Thai SMEs use e-commerce platforms (Business Wire, 2016). Towards this goal, Digital Park Thailand has been launched

as an innovation hub within the EEC framework. Another example of the Thai government's collaboration with private providers is the Smart Online SMEs programme, in which Google is to train MSMEs in accessing digital technology.

Other initiatives to increase SME use of e-commerce include the launch by the Ministry of Finance in January 2017 of PromptPay, a new e-payment system. PromptPay allows registered customers to transfer funds via mobile phone with only the mobile number or national ID number of the recipient. This system also provides an incentive for small businesses by freeing transactions of less than THB 5,000 from service fees.

4.5 Organizational obstacles to Innovation

The lack of innovation of MSMEs hinders the ability of Thai MSMEs to compete in international markets. MSMEs face obstacles to participate in the regional supply chains of multinational companies and international markets more generally because MSMEs are producing goods below export-quality standards, such as ISO, GMP (Charoenrat and Harvie, 2019). The absence of appropriate innovation among Thai MSME entrepreneurs is a critical issue that leads to low product quality and production. This issue needs to be addressed by the Thai government. Thai MSMEs pay insufficient attention to innovation (OSMEP, 2019; Sriboonlue and Puangpronpitag, 2019) because of low level of education of employees in the MSME sector and limited resources to develop digital skills through the Thai educational system (Charoenrat and Harvie, 2019).

Thai policy makers have made substantial efforts to promote productivity and innovation, and the country's Dimension 1 score of 4.97 on the OECD policy index is above the ASEAN median. Yet Thai MSMEs still face several interrelated problems including a lack of financing, insufficient upgrading of capital stock and slow adoption of technology (Charoenrat and Harvie, 2017). The most advanced policies in this area are related to productivity and productive agglomeration enhancement.

The Thailand master plan and action plan for the development of efficiency and productivity of industry (2016-2021),²² proposed by the Office of Industrial Economics (OIE) under the Ministry of Industry, consists of strategies for boosting industrial productivity such as:

1. applying technology, innovation and new management systems;
2. improving human resource skills and capability; and

²² The consultation process during drafting of the master plan involved the private sector (mostly represented by the Federation of Thai Industries and the Thai Chamber of Commerce) and research centres.

3. developing management skills for entrepreneurs and/or production managers.

Regarding MSMEs, the Government has put forward a plan which focuses on the enhancement of productivity growth through innovation. Programs to enhance SME productivity include a scheme based on the Japanese Shindan Shi system, whereby a business development services (BDS) provider conducts an on-the-ground assessment of a firm's operations and makes recommendations for efficiency gains.

Thailand has made significant strides to improve productivity, support innovation and the adoption of new technology and to promote the greening of SMEs. This would be strengthened by establishing a clear division of roles among institutions involved in dealing with productivity. Thailand would benefit from more efficient operational models that clarify the roles and responsibilities of the institutions involved. Another way to support innovation should be by strengthening infrastructure at the local level and developing instruments that help SMEs get individualised BDS support as well as further developing instruments linking SMEs to sources of knowledge.

Quality Standards

The government recognises the importance of quality standards for making MSMEs competitive in domestic and international markets. A key initiative to improve quality standards is the Community Products Standards (CPS) project, which was implemented by the Ministry of Industry. CPS supports Thailand's One Tambon One Product initiative, which helps village communities to identify and promote unique products for export. MSMEs could become more competitive by improving their quality standards. Although the Thai government established an innovation development fund in an attempt to support entrepreneurs and employees, to date this fund has not been successful in terms of patents, product designs, trademarks, certification mark and local Thai wisdom (culture, art and knowledge in the community) (OSMEP, 2020).

Green Innovation

Thailand's National Economic and Social Development Plan contains multiple provisions for green industry innovations generally and green SMEs. Thailand's overall score of 4.29 on the greening of SMEs also places it above the ASEAN median. This reflects the fact that several of its environmental policies also cover SMEs. However, these provisions tend to be broad in

scope, and more could be done to ensure that they better target the specific needs of small and medium-sized enterprises.

The Ministry of Industry's Strategic Plan calls for promoting eco industrial clusters and eco products, including through SMEs.²³ One component of this plan is the Ministry's Green Industry Project, which provides different levels of green compliance certification to enterprises. Because Thailand's SME definition does not disaggregate micro from small enterprises, firms may not be receiving appropriately targeted interventions. Therefore, what is needed in Thailand is to streamline co-ordination among implementing agencies to ensure co-ordination of environmental activities and develop an environmental regulatory regime that promotes SME compliance.

4.6 Lack of Human Resources

Human resources are a crucial issue for MSME development, especially in the knowledge- and skill-intensive "new economy" today (OECD, 2020). The Thai government has supported the educational system by allocating a large amount of funds through successive budgets. However, the average education of Thai workers is quite low and almost 70 percent of the workforce in MSMEs has only primary education or lower. The labour force in MSMEs comprises largely unskilled labour. These workers have limitations and difficulties in learning and training, and knowledge acquisition and application. That part of the labour force which is more highly educated, such as at the secondary school or diploma levels, have a greater ability to learn and understand compared to workers who only have a primary education (OECD, 2020). Entrepreneurship skill is a main problem facing Thai MSMEs. The traditional style of running a business may be productive for the domestic market, but it may not be effective for the international market (Charoenrat and Harvie, 2019). Moreover, most Thai MSMEs are family businesses, and informal, which limits their business growth and market expansion. They have limited capabilities in raising and managing finance, conducting market research, business management, and analysis of domestic and international markets (Charoenrat and Harvie, 2017b).

²³ The plan's third strategy, for strengthening the economy and underpinning sustainable competitiveness, calls for providing green finance to agricultural sector entrepreneur. It also advocates to develop green tourism, green technology research and development, and building a curriculum at the university and vocational levels to help SME entrepreneurs develop green enterprise knowledge. The fourth strategy, for environmentally friendly growth for sustainable development, calls for green labelling, investment in green industrial production, promotion of life-cycle assessment for products and an expansion of green public procurement policies.

4.7 Limited Government Regulation

Government efforts have not been sufficient to provide an adequate level of support to push MSMEs to increase their competitiveness both in domestic and international markets. Government agencies are not well-prepared to play an effective role in assisting and supporting MSMEs (Charoenrat and Harvie, 2019). Such agencies face numerous challenges including lack of transparency, inadequate legal and regulatory framework, inconsistent MSME promotion plans (UNIDO, 2020; Charoenrat and Harvie, 2019).

Therefore, the Government should play a key role in providing necessary knowledge and information for the MSME sector. It should also encourage networking between MSMEs for their mutual benefit and should launch necessary measures to protect MSMEs from unfair competition and international trade barriers (Charoenrat and Harvie, 2019; Sriboonlue and Puangpronpitag, 2019) as well as actively encourage the use of digital technology by MSMEs.

4.8 Market Challenges and Opportunities

Thailand is recognized as an upper middle-income country amongst ASEAN economies. The country was ranked 40th out of 132 in the World Economic Forum (World Economic Forum, 2019), which measures institutions, policies and services to facilitate trade in the country. Even through, natural disasters and political instability, Thailand has maintained a resilient and open economy, particularly as a member of ASEAN. Thailand's efficiency in import-export procedures make it an attractive to foreign investors and gives it a competitive edge.²⁴ Thailand has been very active in regional free trade agreements (e.g, with ASEAN) and bilateral trade agreements with Australia, India, Japan, and New Zealand (International Trade Centre, 2020). Thailand has also imposed high import tariffs and restricted market entry. The national strategy of Thailand aims at strengthening competitiveness in international markets by improving its productivity and preparing for participation in regional economic integration (World Economic Forum, 2019; International Trade Centre, 2020). While Thai exporters face few barriers to their exports, high import tariffs that are applied to small domestic production hinders Thai trade.²⁵

²⁴ With respect to trade policy and market access, Thailand's trade tariff was 7.46 per cent in 2019 (World Economic Forum, 2019). The average applied tariff on agricultural goods is higher than non-agricultural goods, while a high average tariff is imposed on beverage and tobacco, clothing, and fruits, vegetables, and plants (International Trade Centre, 2020).

²⁵ Thailand's average applied Most Favoured Nation (MFN) tariff rate was 12.5 per cent ad valorem in 2017. About one-third of Thailand's MFN tariff schedule involves duties of less than 5 per cent and 30 per cent of tariff lines are MFN duty free, including chemicals, electronics, industrial machinery, and paper. Thailand has bound all tariffs on agricultural products in the WTO, but only 70 per cent of its tariff lines on industrial products are bound. It has bound its agricultural tariffs at 39.5 per cent ad valorem, compared with its average applied MFN

Thailand has maintained an open market-oriented economy and encouraged foreign direct investment (FDI) as a means of boosting economic development, employment, and technology transfer. Thailand has continued to be a leading destination for FDI and many multinational companies, and MSMEs alike have invested successfully in the country. Thailand's economic growth has created opportunities for many foreign companies in several infrastructure sectors such as electrical power, telecommunications, and renewable energy. Thai consumers have also created opportunities for new sales for foreign companies, for example medical products, automotive accessories, agricultural equipment and chemicals, cosmetics, food supplements, franchising and educational services (International Trade Centre, 2020).

Thai MSMEs in various industries face intense competition from both domestic large and international suppliers of goods and services. Many domestic companies are family-owned businesses that span generations and are led by second- and third-generation businesspersons who are highly educated and possess deep knowledge of their industries. Another challenge for international enterprises to enter the Thai market is the lack of transparency in Thai government procurement process.

5. Analysis of the main findings of the 2020 UNCTAD Survey on MSMEs in Thailand and case study examples

5.1 Methodology considerations

The 2020 UNCTAD MSME survey collected information on the operation of manufacturing establishments such as: the main area of operation; the location of firm; the type of firm; the ownership type; cost of production; cost of sales and administrative expenses and inventory of the firm.²⁶ In addition, the MSME survey consists of four parts based on 219 firms interviewed: (1) general information of firms in the survey; (2) the current impact of Covid-19; (3) dealing with Covid-19; and (4) competition policies and market access during Covid-19.

tariff on agricultural products of 25.1 per cent. MFN duties on imported processed food products range from 30 per cent to 50 per cent, which can limit the ability of international exporters of such products to compete in the Thai market. In addition, tariffs on meats, fresh fruits (citrus fruit and table grapes) and vegetables, fresh cheese, and pulses (dry peas, lentils, and chickpeas) are comparably high (International Trade Administration (ITA), 2020).

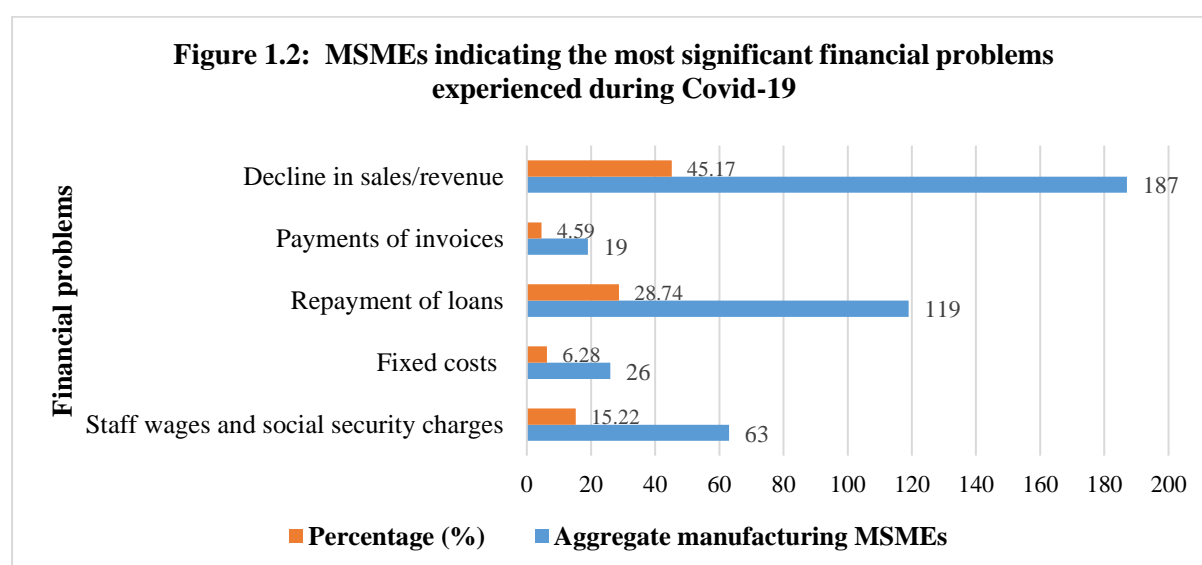
²⁶ The objective of the 2020 UNCTAD MSME survey was to collect basic information and the distribution of establishments engaged in manufacturing industry only classified by ISIC: Revision 4, 2-digit code. An interview method was employed in the data collection. The data collection was conducted by Suan Dusit Poll²⁶ during December 2020 – January 2021.

5.2 Current impact of Covid-19: Decline in revenue and reduction of orders

It can be observed that most firms (187 firms or 45% in the sample) are concerned with a decline in sales/revenue during Covid-19. This is followed by the financial problems of repayment of loans, staff wages and social security charges, fixed costs, and payment of invoices, respectively (see Table 1.8 and Figure 1.2).

Table 1.8: Number and Percentage of Firms in the Sample Indicating the Most Significant Financial Problems Experienced During Covid-19 Classified by Manufacturing MSMEs

Items	Manufacturing MSMEs	Percentage (%)
(Multiple answers)		
1. Staff wages and social security charges	63	15.22
2. Fixed costs	26	6.28
3. Repayment of loans	119	28.74
4. Payments of invoices	19	4.59
5. Decline in sales/revenue	187	45.17
Total	414²⁷	100

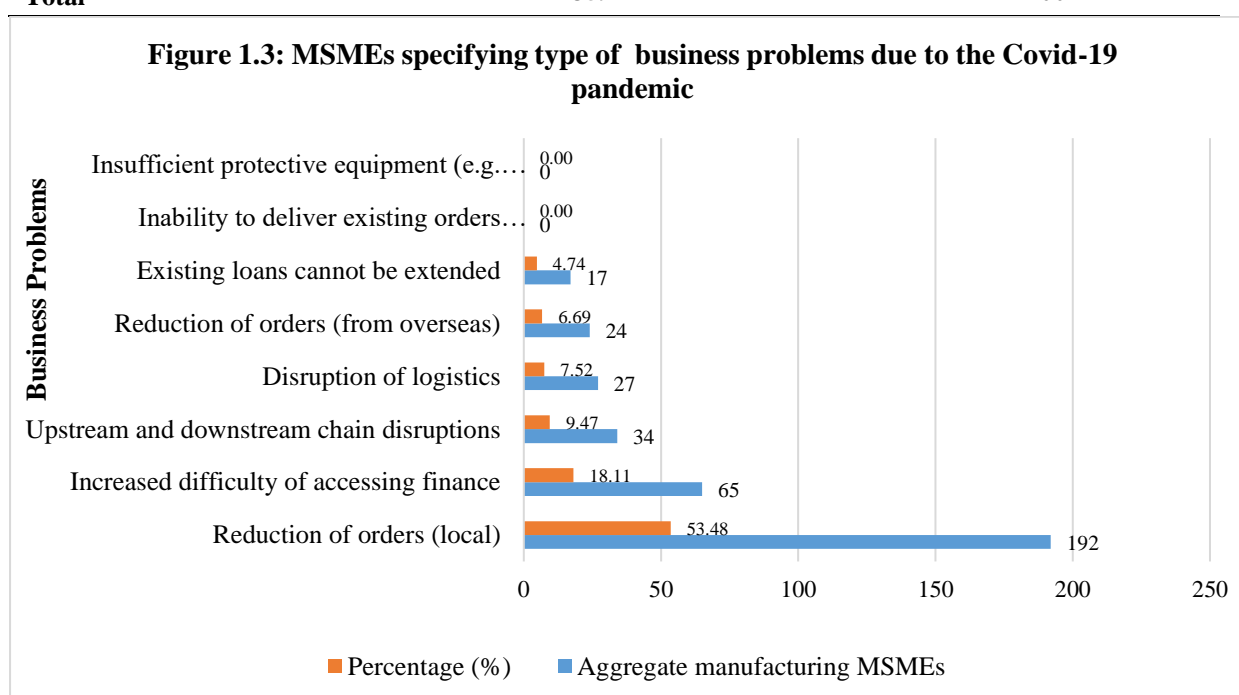


Most firms in the sample anticipated/actually facing a reduction of orders (local) during the Covid-19 (192 or 53% of sampled firms). This is followed by increased difficulty of accessing finance, upstream and downstream chain disruptions, disruption of logistics, reduction of orders (from overseas), and existing loans cannot be extended, respectively. However, business problems of inability to deliver existing orders (lockdowns) and insufficient protective equipment (e.g., masks) are not indicated by the firms in the sample (see Table 1.9 and Figure 1.3).

²⁷ MSMEs can provide answers up to 3 responses.

Table 1.9: Number and Percentage of Firms in the Sample Specifying Business Problems Due to the Covid-19 Pandemic Classified by Manufacturing MSMEs

Items	Manufacturing MSMEs	Percentage (%)
(Multiple answers)		
1. Reduction of orders (local)	192	53.48
2. Reduction of orders (from overseas)	24	6.69
3. Inability to deliver existing orders (lockdowns)	0	0.00
4. Increased difficulty of accessing finance	65	18.11
5. Existing loans cannot be extended	17	4.74
6. Disruption of logistics	27	7.52
7. Upstream and downstream chain disruptions	34	9.47
8. Insufficient protective equipment (e.g. masks)	0	0.00
Total	359	100

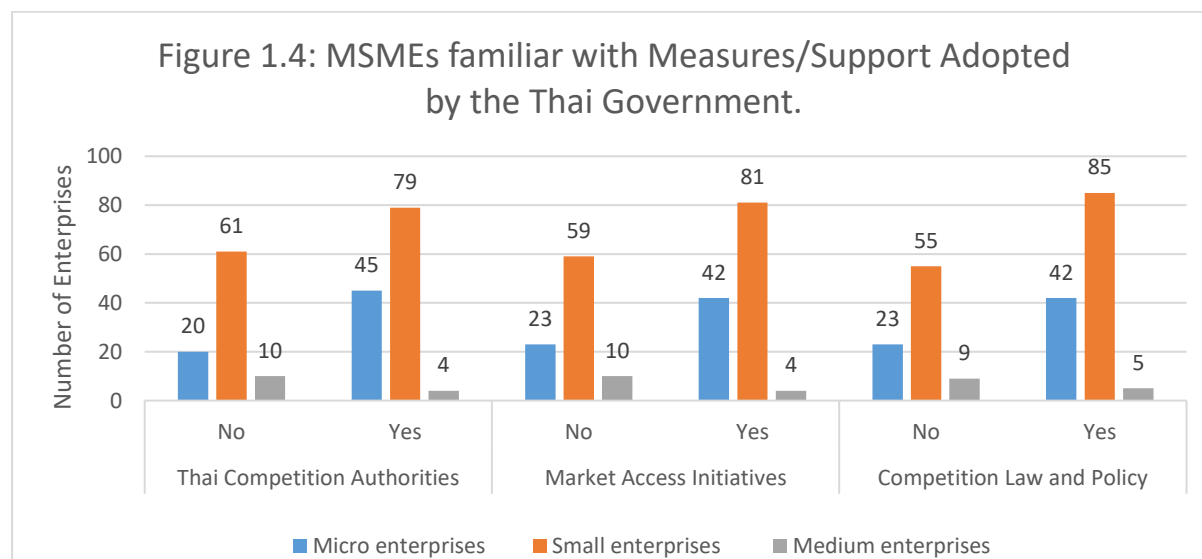


5.3 Dealing with Covid-19: Concerns about loans and shortages of inputs

At least 50% or 150 firms from the sample are concerned about limited access to loans from commercial banks during Covid-19. The rest of the firms sampled are concerned with reduction of operating costs, access to loans by microfinance companies or private individuals, negotiating with lenders to avoid penalties. Most firms in the sample did not face a shortage of workers (196 firms or 81.33 percent of all enterprises in the sample). Regarding the shortages of inputs such as intermediate goods and raw materials, it can be observed that the majority of firms in the sample indicates that there has been no shortage of inputs during Covid-19, accounting for 102 enterprises or 33.33 percent of all enterprises in the sample. Focusing on difficulties in fulfilling contracts with local firms and foreign firms, at least 50% of firms in the sample specified that they have no contractual performance issues (see Annex 7).

5.4 Competition policies and market access measures during Covid-19

This section identifies which firms in the sample are aware of and understand measures/support relating to market access initiatives, competition law and policy, respectively, during Covid-19 and which have been made available by the Government, including the Thai Competition Authority (guidelines, investigations). At least 127 firms acknowledged market access initiatives made by the Government during the Covid-19. Regarding the enforcement of competition law and policy during COVID-19, most firms considered competition law and policy, representing 132 firms.



It can be observed that 179 firms or 50% of firms sampled pointed out that the most beneficial competition reform for the entire business would be those addressing the financial sector during the Covid-19, accounting for 179 firms or 50% of firms sampled. 125 firms in the sample relied on online/social network/digital platforms to conduct their business and selling or marketing products online. Regarding government support, most firms specified that the Thai government was doing enough to encourage and support the use of online platforms, representing 173 firms in the sample of all enterprises, while 46 firms did not.

5.5 Empirical Results from the 2020 UNCTAD MSME Survey

The results of the survey based on an inefficient effect model (see Annex 4) demonstrate that the efficiency of MSMEs in Thailand is influenced by the following factors: location, government measures, competition enforcement, market access initiatives, online platforms amongst others (see Annex 5 and 7 for the comprehensive analysis of empirical results).

- **Firm location.** The survey result suggests that the efficiency of MSMEs is driven by its location. For instance, Bangkok and its surroundings carries major locational advantages for MSMEs in comparison to other regions.
- **Government measures.** The survey shows that government measures are negatively related to the technical efficiency of Thai manufacturing MSMEs in 2020.

- **Competition authority.** Based on the survey, we have observed that the competition authority has had a potentially negative impact on the technical efficiency of Thai manufacturing MSMEs in 2020.
- **Market access initiative.** The result suggests that market access initiatives have a positive relationship to technical efficiency for Thai manufacturing MSMEs in 2020 in our sample.
- **Competition law and policy.** There was a negative relationship between the enforcement of competition law and policy and the technical efficiency for the sample of manufacturing MSMEs in 2020.
- **Restricted new firm.** The negative coefficient for restricted new firms in the sample of Thai manufacturing MSMEs indicates a positive relationship between restricting new firms and technical efficiency.
- **Market access initiative.** The result indicates that market access is negatively related to the technical efficiency of Thai manufacturing MSMEs in 2020.
- **Online platforms.** The result implies that using an online platform has a potentially negative impact on the technical efficiency of the sample of Thai manufacturing MSMEs in 2020.

5.6 Case study Examples

This study has also conducted an in-depth interview with ten sub-manufacturing MSMEs in Thailand, from the following sectors (see Annex 6):²⁸

- 1) Manufactures of leather and related products – 1 firm
- 2) Manufactures of rubber and plastics products – 2 firms
- 3) Manufactures of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials – 3 firms
- 4) Manufactures of food products - 2 firms
- 5) Manufactures of motor vehicles, trailers, and semi-trailers – 1 firm
- 6) Repair and installation of machinery and equipment producers – 1 firm.

How the Covid-19 pandemic impacted MSMEs.

²⁸ Table 13 in Annex 6 summarizes the responses of an in-depth interview with manufacturing MSME owners regarding the current impact of the Covid-19 pandemic.

Most interviewed MSMEs reported that they faced obstacles in renegotiating loans with banks and asking for additional loans from State and private banks. Firms also raised concerns about the high cost of borrowing and overdraft refusals. Most interviewed firms benefited from debt moratorium introduced by banks because of government measures. Interviewed firms indicated that their recovery period would amount to 6 months.

How MSMEs dealt with the covid-19 pandemic.

Most interviewed firms indicated that there is a problem of access to loans during the pandemic due to insufficient loans offered to MSMEs from both state owned and private banks. This is consistent with the results from the 2020 MSME survey.

Moreover, some manufacturing firms stressed their ineligibility to access soft loans from state banks to avoid bankruptcy in comparison to other business sectors which can access such loans such as tour and travel agencies, spas, transport businesses, hotels, and restaurants, amongst others. These firms suggested that the Thai government should apply an automatic suspension on loan payments for six months from January 2021 onwards. While some banks implemented a suspension of principle loans for six months, MSMEs still had to pay monthly interest on loans. Most firms mentioned that they urgently require real “credit assistance measures” from the Thai government with guidelines for various loans, such as credit cards and cash flow loans.

Competition policies and market access during Covid-19.

Most interviewed firms responded that they are not aware and fail to understand measures and market access initiatives adopted by the Thai Competition Authority. This result conflicts with the results from the 2020 MSME survey which indicated that some firms disregard the issue whilst others engage in collaboration with competing firms to ensure provision of essential services (e.g. transport).

Most interviewed firms have been concerned with competition or pro-competitive measures but cannot understand the benefits linked to competition policies. Regarding the entry of new firms (domestic and/or foreign) from entering domestic sectors, most interviewed firms pointed out that the Government should restrict new firms to enter their area of business, due to high competition, loss of sales/profits which will intensify difficulties during Covid19. The majority of interviewed firms expressed that it is very difficult to seek new market targets, both local and international, during Covid-19.

Use of online platforms and e-commerce.

Most interviewed firms reported limited use of online platforms in the conduct of their business. However, the online platforms did not really improve sales, due to stark competition from large online platforms, such as Lazada, Alibaba, Shopee. To address this issue, most firms stated that they required practical assistance from the Thai government such as a database on online marketing, an online platform established by the Thai government.

6. Conclusions and policy recommendations

6.1 Conclusions

Thailand is currently facing a middle-income trap with rising domestic wage costs. As a result, Thailand can no longer compete in the following areas: low value addition, low skills, and vis a vis labour intensive sectors in China, Vietnam, Bangladesh, and Indonesia. The country is also lacking in the development of innovative, knowledge intensive, and higher value addition sectors. Therefore, Thailand should strengthen the value-added supply chain of MSMEs to compete with countries such as Korea, Taiwan, and Japan.

Similarly, to most countries in Southeast Asian, Thailand's economy is characterized by a "missing middle". It has relatively few medium sized enterprises (only 0.5% of all firms, or 15,000 firms) which contribute disproportionately to output, employment, R&D, new technology, exports, innovation, and value chain participation. MSMEs face numerous barriers that hinder development and sustainability of their market presence.

The competitiveness of MSMEs should be improved to address this "missing middle trap" which exposes them to possible abuse of dominance and associated unfair business practices by large firms. This report highlights the driving forces of MSMEs' inefficiency and how this can be addressed, for instance with greater foreign ownership involvement in local MSMEs as a short-term solution. Further study is required to analyse barriers facing micro and small firms from upgrading to become medium sized enterprises.

6.2 Policy Recommendations

6.2.1 Short to Medium Run Priorities

- access to finance/ liquidity arising from falling sales and revenue;
- maintain competition and market access;

- ease of company registration and filing taxes.

Priority 1: Alleviating short term liquidity and financial pressure in the context of Covid

19

The MSME survey and in-depth case study interviews have identified the concerns that MSMEs have faced in Thailand.

Recommendation 1: To alleviate pressure from loss of sales revenue and burden of loan interest payments, the following actions are proposed:

(i) Debt moratorium to alleviate the burden of loan interest payments – agreement with lenders (commercial banks) to renegotiate the terms of the loans in terms of the repayment schedule, possible deferment of the loan, cost of the loan, duration of the loan (spreading the repayment over a longer duration). Government and commercial bank involvement in this process is essential.

(ii) Advocate for delay or extend deadlines for tax payments to enable MSMEs to retain more liquidity and further simplify tax filing procedures with online platforms. The number of payments and the time required to complete them is high by the standards of OECD high-income countries, where 10.9 payments take 160.7 hours on average. The cost of tax compliance for MSMEs in the current environment should be reduced wherever possible. This can include delay or extension of deadlines for tax payments to enable MSMEs to retain more liquidity. To continue improving the ease of filing taxes, the government could reduce the number of payments and the time required to complete them, particularly for corporate income tax by streamlining e-governance platforms. To facilitate filing, the government could consolidate the platforms of the different agencies and ensure that agencies can view each other's data. It could also integrate Thailand's e-signature into more services.

(iii) Introduce job retaining schemes with a two-tier payment system specifically targeting MSMEs through government and subsidies. We recommend a two tier

payment rate system – a tier 1 (higher) rate and a tier 2 (lower) rate- qualified by the number of hours and whether eligible employee worked, or an eligible business participant was actively engaged in the business.

Such as scheme would require careful costing by the government and come out of the central budget. It would have the advantage of quickly providing the liquidity needed by MSMEs to meet bills, interest payments, other expenditures, and in general enhance firm survival. It also enables workers to be retained in employment and for them to continue spending, paying tax and injecting demand into the local economy, with a multiplier effect on overall demand. This would alleviate the local decline in sales/revenue for domestic MSMEs in Thailand, and particularly those in the retail sector. This would help the overall survival of these MSMEs, which would generate more tax revenue for government further down the track both from surviving firms and employed workers. Finally, this scheme would assist in at least partially funding this program.

Priority 2: Ensure access to markets and internationalisation

Despite government efforts to increase the contribution of MSMEs to at least 50 per cent of GDP by 2021 via policies aimed at increasing internationalisation, clustering, innovation and the adoption of new technology, large firms still dominate GDP and exports and there is **heavy concentration** in many key sectors. The following recommendations aim to address these issues:

Recommendation 2:

(i) Strengthen the enforcement of competition policy and promote exports to enable market access for SMEs. Ensure strong enforcement of competition and other regulatory policies to allow market entry and ensure that large firms do not abuse MSMEs in their business dealings. It will be essential to strengthen the legal environment to maintain a level playing field for all firms with heavy fines for non-compliance with the law.

(ii) Expand market access of MSMEs by increasing the use of E-commerce and equip MSMEs with digital technology and entrepreneurial skills to boost their competitiveness in international trade. Thailand recognises the need to maximise the

use of digital technology to drive the country forward and is conducting extensive reform in this area. The Thailand Digital Economy and Society Development Plan is the country's blueprint for digital innovation. It combines with other initiatives to push technology to develop MSMEs through increased broadband access, assistance to help MSMEs go online with the support of large online platforms (ie Alibaba and Google) and develop e payment platforms.

To support MSMEs' move to digitalisation, what is required in combination with the above is boosting the inclusivity of MSMEs in the Thai Economy through educational programmes targeted to MSMEs entrepreneurial/entrepreneurship skills. To increase and build a more innovative body of entrepreneurs it is important for Thailand to strengthen entrepreneurial learning within the education system and to bolster its entrepreneurial training initiatives. By developing a national entrepreneurship curriculum covering all levels of education, this would ensure that current and future MSME owners can develop relevant skills based on entrepreneurship skills initiatives and with entrepreneurship programs for vulnerable groups.

(iii)Address the gap in MSME tailored trade facilitation mechanisms to increase MSMEs' competitiveness. While the Government has established basic infrastructure to facilitate dealing with customs procedures and using trade facilitation services to further support international traders (ie. e-customs system, programme for exporters/importers and customs brokers). These initiatives fail to support MSMEs in dealing with customs procedures and use of trade facilitation services. These programmes should investigate specific incentives or support mechanisms for MSMEs to increase their competitiveness.

6.2.2 Medium to long run Priorities

These mainly relate to addressing medium to long term issues focusing on economic reforms to address the country's middle-income trap.

- Increasing the breadth and depth of long-term sources of finance
- Improving productivity (business development services, productive agglomerations and cluster enhancement, technological innovation)
- Stimulating entrepreneurship skills and capacity (long term).

Priority 3: MSME access to finance and addressing market failure (credit rationing)

Thailand does have several policy instruments in place to support MSME financing and it has increased regulatory oversight of financing institutions. While the government of Thailand encourages bank lending to MSMEs through (i) dedicated credit lines from national banks for MSMEs; (ii) credit guarantees for small firm loans and (iii) specialised MSME lending institutions, these instruments fail to support MSMEs credit rationing. This has an impact on the productivity of MSMEs, despite Thailand placing itself above the ASEAN median on the OECD policy index regarding the country's efforts to promote productivity and innovation. Since a comprehensive regulatory framework for alternative financing instruments is still missing in Thailand, we recommend the following:

Recommendation 3:

- (i) The Thailand Government and financial bodies (the Bank of Thailand and the Securities and Exchange Commission) should provide alternative ways to access to finance for MSMEs such as microfinance, asset-based financing products and equity financing.
- (ii) Promote new range of eligible securities to boost access to finance for certain types of enterprise, such as higher-technology innovative MSME start-ups or agricultural related enterprises (i.e. securitization of crops through a warehouse receipt scheme or certain types of agricultural machinery.)
- (iii) The Thailand Government should build a co-ordination mechanism for the relevant agencies involved in SME policy and implementing institutions (OSMEP, Ministries of Industry and Commerce) to deal with productivity issues. This will establish a clear division of roles between the relevant institutions.

Priority 4: Greening of MSMEs

Thailand's National Economic and Social Development Plan contains multiple provisions for green industry generally and green SMEs in particular. Thailand's overall score of 4.29 on the greening of SMEs also places it above the ASEAN median. This reflects the fact that several environmental policies also cover SMEs. However, these provisions tend to be broad in scope, and more could be done to ensure that they better target the specific needs of small and medium-sized enterprises. These could be addressed with the following recommendation:

Recommendation 4: Establish a dedicated unit in the department of industrial works as a focal point to support the greening of SMEs. This focal point could support the Development of an environmental regulatory regime that promotes SME compliance within the Institutional framework for MSME policy. This supports the fourth point of Recommendation 3 which relates to enhancing coordination mechanisms among institutions.

RECOMMENDATIONS SUMMARY TABLE

SHORT RUN

Priority 1: Alleviating short term liquidity and financial pressure in the context of Covid 19

1. Debt moratorium
2. Advocate for delay or extend deadlines for tax payments to enable MSMEs to retain more liquidity and further simplify tax filing procedures with online platforms.
3. Introduce job retaining schemes with a two-tier payment system specifically targeting MSMEs through government and subsidies.

Priority 2: Ensure access to markets and internationalisation

1. Strengthen the enforcement of competition policy and promote exports to enable market access for SMEs.
2. Expand market access of MSMEs by increasing the use of E-commerce and equip MSMEs with digital technology and entrepreneurial skills to boost their competitiveness in international trade.
3. Address the gap in MSME tailored trade facilitation mechanisms to increase MSMEs' competitiveness.

MEDIUM TO LONG TERM

Priority 3: MSME access to finance and addressing market failure (credit rationing)

1. The Thailand Government and financial bodies (the Bank of Thailand and the Securities and Exchange Commission) should provide alternative ways to access to finance for MSMEs such as microfinance, asset-based financing products and equity financing.
2. Promote new range of eligible securities to boost access to finance for certain types of enterprise, such as higher-technology innovative MSME start-ups or agricultural related enterprises (ie securitization of crops through a warehouse receipt scheme or certain types of agricultural machinery).
3. The Thailand Government should build a co-ordination mechanism for the relevant agencies involved in SME policy and implementing institutions (OSMEP, Ministries of Industry and Commerce) to deal with productivity issues. This will establish a clear division of roles between the relevant institutions.

Priority 4: Greening of MSMEs

Establish a dedicated unit in the department of industrial works as a focal point to support the greening of SMEs.

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