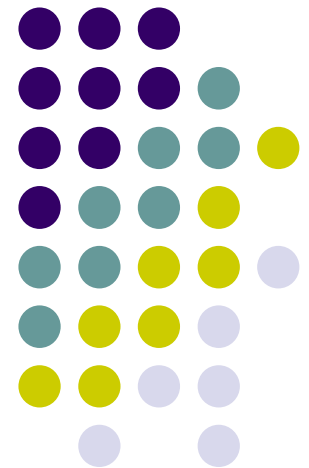
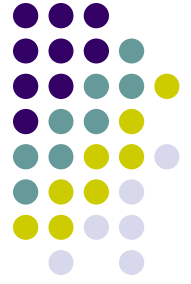


US and Thailand: Business at the Crossroads

ENTREPRENEURSHIP
OPPORTUNITIES
IN THAILAND

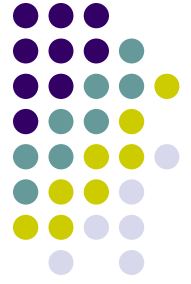


AGENDA

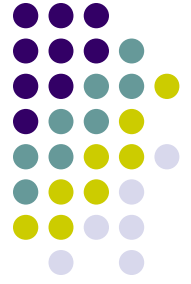


- The Attractive Thai Market
- Global Entrepreneurship
- Opportunity: Export to Thailand
- Opportunity: Partner with Thai Businesses

THE ATTRACTIVE THAI MARKET



- THAILAND IS OPEN FOR BUSINESS
 - 1997 comments by US Ambassador to Thailand, William Itoh
 - Royal Thai Embassy's business development program
 - Small and Medium Enterprise Development Bank of Thailand continues strong business support

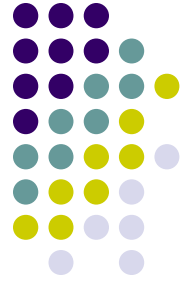


- SE Asia had avoided excessive borrowing
- Unfortunately, exports have fallen
- Bank reserves still better than the rest of the world
- Export Import Bank of Thailand is solid

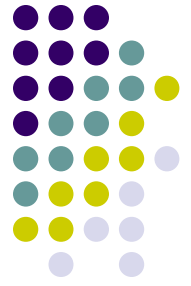


- 70 MILLION FRIENDLY PEOPLE
 - One of five treaty allies of the US in the Asia Pacific region
 - Located between China and India
 - An entrepreneurial culture
- Trade = \$34 billion in 2008
 - \$24 billion Thailand to US
 - \$10 billion from US to Thailand
- Phuket: Good infrastructure (airport, hospitals, communications)

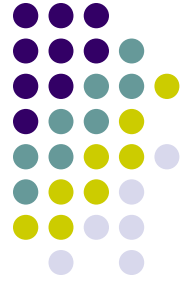
THE ATTRACTIVE THAI MARKET



- THAILAND IS OPEN FOR BUSINESS
 - 1997 comments by US Ambassador to Thailand, William Itoh
 - Royal Thai Embassy's business development program
 - Small and Medium Enterprise Development Bank of Thailand continues strong business support
 - US Thailand Business Council promotes business and investment initiatives



- SE Asia had avoided excessive borrowing, but now exports have fallen
- Reserves still better than the rest of the world
- Export Import Bank of Thailand is solid



- 70 MILLION FRIENDLY PEOPLE
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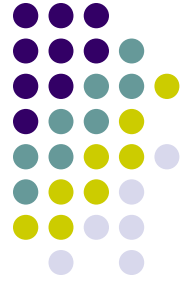


- Trade = \$34 billion in 2008
 - \$24 billion Thailand to US
 - \$10 billion from US to Thailand
- Phuket: An example of good Thai infrastructure (airport, hospitals, communications)



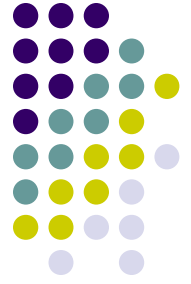
- NEGATIVES ...
- Political instability but there is hope for improvement
- Problems with boat people
- “all cash” transactions
- Low unemployment (1.1% on Phuket)

GLOBAL ENTREPRENEURSHIP



- “The integration of markets and technology that enables commerce in any nation ”
 - Because the walls fell
 - Trade barriers reduced (GATT (General Agreement on Tariffs and Taxes) with WTO enforcement
 - The rise of China and India
 - Lower communication costs

Global growth is important for new ventures



- not the exclusive province of large companies
- 70% of firms that export have fewer than 500 employees
- 25% of firms that export have fewer than 100 employees

Motivation to go global

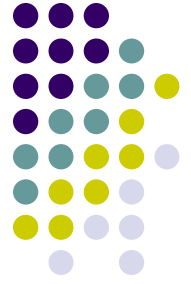


- The growth imperative:
 - Economies of scale, scope, **KNOWLEDGE**, and network to yield MORE profit, wages, bonuses and related goodies
 - To gain resources
 - To gain a reputation and brand
- The home market may be fully developed



- Cachet – “I have an international business”
- Stay a few days in Phuket
- Access international value chain capabilities
 - Technical skill
 - Raw materials
- Follow global customers and competitors (Fuji went global. Kodak did not)

Global Entry Strategies: The Risk Continuum

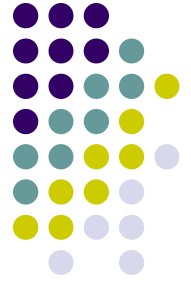


- LOW
- Export
- “Low share” ownership of a foreign stand alone firm
- Partnership with an existing foreign firm (license, strategic alliances, or joint venture)
- Direct total investment in your foreign start-up subsidiary (Nokia, Caterpillar, Intel, HP) – DIFFICULT IN THAILAND
- HIGH

OPPORTUNITY: EXPORT TO THAILAND

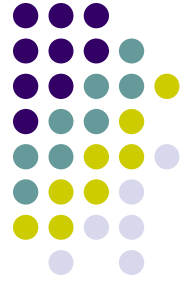


- Aircraft
- Automotive
- Broadcast systems
- Cosmetics
- Education
- Electrical systems
- Food processing
- Laboratory instruments
- Medical devices
- Safety and security
- Water pollution



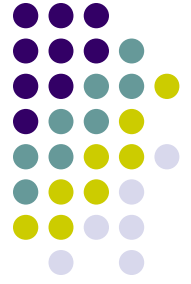
Export Details

- Easy entry that enables learning about the right strategy
 - Use an export management company. They:
 - set fees or commissions
 - handle details
 - be careful – you can lose control
 - Engage a Freight Forwarder



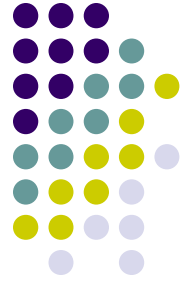
- **Relative + and – of Exporting**
 - **+consolidated production**
 - **-transport cost**
 - **-trade barriers**
 - **-agency challenges**

OPPORTUNITY: PARTNER WITH THAI BUSINESSES



- Partnership may or may not include investment

Pros and cons of licensing and strategic alliances



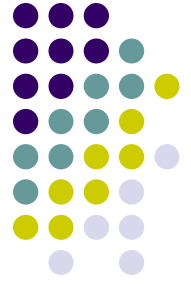
- **Licensing**

- +no investment
- +low development cost
- -may lose control of IP
- -may lose global coordination
- -may lose economies of scale

- **Strategic Alliances**

- +complete value chain returns shared
- -may create competitors

Partnership involving investing



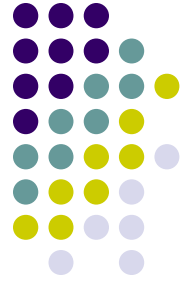
- **Joint ventures**
- **Form a Third Company**
- **China / US / Germany / Singapore / Thailand**
 - Toyota and GM (USA)
 - Mazda and Ford (USA)
 - Daimler and Chrysler (USA)
 - P&G, & Colgate Palmolive (Thailand)
- **Your partner may be the state**
 - Russian oil companies

Current Situation for Investment in Thailand

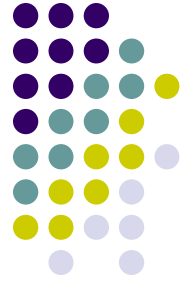


- Foreign investment is restricted by 1999 Foreign Business Act
- Similar to China
 - Land ownership, communication, transportation, banking, insurance, finance, & shipping are highly constrained
- Work permits must be obtained and there are prohibited occupations

Categories of constraint under FBA



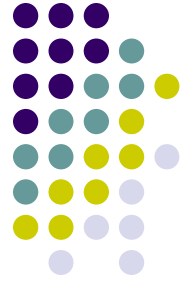
- A: Prohibited foreign ownership (acctg, law, & architecture)
- B: Prohibited unless promoted by the government (fishing, printing)
- C: Licensed through the Ministry of Commerce
 - May be 100% owned by aliens if grandfathered



Exempted from FBA of '99

- 51% Thai - owned businesses are not constrained
 - Use of nominees and supermajority rights are prohibited, but not always enforced
- Now more than ever, who invested the capital matters – The Temasek case
- Politics matters
- Value added tax registration matters

Significant investments in Thailand



- \$16 billion invested by US in '97
- \$3 billion new in 2006, \$5 billion new in 2007
- \$30 total now
 - Ford, GM, Seagate, Exxon, Caltex
- Good profits in 2006 and 2007.

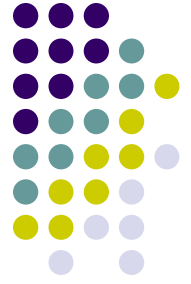


- **Relative + and – of Joint Ventures**
 - **+gain local knowledge**
 - **+share IP and other resources**
 - **+reduce risk**
 - **+share development cost**
 - **+politically acceptable**
 - **-reduce return**
 - **-lose control of IP**
 - **-lose global coordination**
 - **-lose economies of scale**



Many joint ventures do not work

- **The marriage metaphor**
- **Must have complementary needs and competencies. NEEDS:**
 - **Local knowledge**
 - **Local contacts**
 - **Political access: China, USSR**
 - **Manufacturing resources**
 - **Rapid entry - expansion**
 - **Cost sharing (one plant, many distributors)**
 - **People / skills**
 - **IP**
 - **Investment money**
 - **Customers**



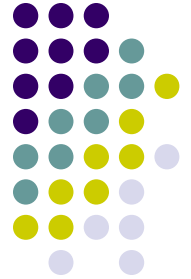
Challenges

- Conflicting ethics – protection of IP
- Shifting politics
- Unequal goals
 - (Japan example) Dow wanted profits, Asahi wanted a place to sell petrochemicals consistently
- Dislocated teams and 24 hour operations
- Cultural challenges
 - Holidays
 - Daily breaks



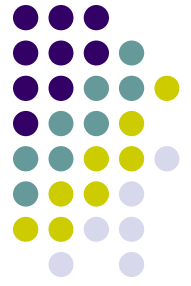
Discussion

- **The Thai government is encouraging joint ventures. What are the benefits?**
- **To Thailand**
 - **Gain know how**
 - **Speed development**
 - **Continue control**

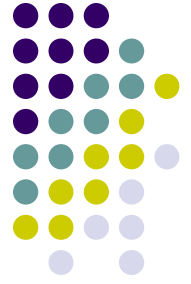


- **To the Foreign Firm**
 - **New markets**
 - **Low labor cost**
 - **Profits**

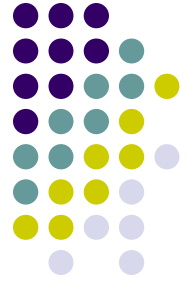
TIPS: New Venture Global Strategy (Everywhere)



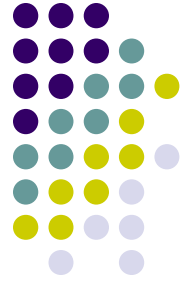
- Input quality should be monitored
- Bribes are required in some countries or nothing happens
- Satyam (India) scandals are rare, but be careful
- Develop a good personal relationship
- Understand contract practices



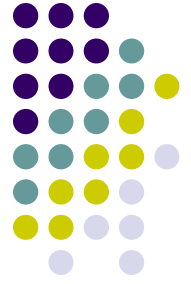
- Deal with IP protection issues
 - Educate your employees
 - Don't tell employees everything
 - Be quick with patent and trademark registration
 - R&D must be driven by the need to stay ahead of IP pirates
- Don't be "tricky"
 - The case of Danone and Wahaha



- Make a beachhead
 - Do small step entry
 - Target a narrow segment
 - McCormick started with McDonald's China and now serves global customers
- Be prepared to create the entire business.
 - You may have to create the market
 - There may be infrastructure problems

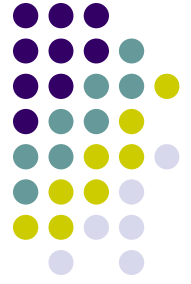


- Don't obsess over IP
 - Expect weak enforcement
 - Expect imitation
 - Responses:
 - Accelerate innovation
 - Reduce prices (Windows starter version)
 - Disperse core R&D and IP



- Minimize partner risk
 - Look for partners with little customer overlap
 - Use multiple suppliers
- Job hopping is a huge challenge
 - Be a great employer
 - Be permanent and long-lived
 - Pay well
 - Use innovative compensation schemes
 - Awards, including stock

CONSIDER JOINT VENTURES IN THAILAND



- Chemistry is good
- Symmetric goals are possible
- Partners seem to have realistic expectations
- Current financial stress is a current problem