

THAILAND

Overview

Thailand's economic development policies are based on a competitive, export-oriented, free market philosophy. Its economy is in transition from its agricultural roots to a more open and broadly based system with a large manufacturing sector. In the last decade, Thailand enjoyed average annual economic growth rates of 8.2 percent and with healthy economic fundamentals the growth rate should remain in the range of 7-8 percent for the next two years. Thailand's trade relations have traditionally been oriented toward distant markets, particularly those in North America and Europe. The implementation of an ASEAN Free Trade Area (AFTA) is contributing to more rapid growth in Thai trade with its ASEAN partners. The United States has long been Thailand's key trading partner and military ally. This strong economic and military relationship will continue to provide trade opportunities for U.S. firms in both commercial and defense industry sectors.

Defense Industry Environment

Thailand's yearly defense spending is about US \$4 to 4.3 billion. The defense budget as a percentage of Gross Domestic Product (GDP) has remained constant over the past three years at 2.1 percent. About US \$800 million to US \$1 billion is spent annually for military hardware, both to replace outdated items and for new programs.

Thailand's domestic defense industry capabilities are rudimentary. Although Thai industry is able to produce some forms of ammunition, the Ministry of Defense (MOD) relies heavily on foreign sources for virtually everything else such as transportation, communications gear, and weapons.

The U.S. traditionally has been Thailand's primary source of defense equipment. In recent years, China has become an important supplier of frigates and wheeled vehicles. Traditional European suppliers are the UK, France, Germany, Italy, Spain, and the Czech Republic. The Thai military has also purchased defense equipment from the Republic of Korea, Israel, Austria, and Indonesia. This recent diversification of defense suppliers has led to increasing competition for U.S. vendors.

Defense Opportunities

All the military services, the Army, Navy, Air Force, and the Marine Corps, routinely seek to upgrade existing capabilities. Since Thailand possesses a large standing force (190,000 in the Army, 48,000 in the Air Force, and 53,000 in the Navy and the Marines), the requirements for military equipment vary widely. In general, all the services look for ways to upgrade basic

communications gear and transportation equipment. However, due to tight defense budgets, the Thai military places strong emphasis on cost.

Thailand's Ministry of Defense has published a defense white paper, the "Defense of Thailand 1996" which is a convenient source of information. This publication has been distributed recently at a regional security conference. With respect to future trends, the Thai Armed Forces have begun a process of downsizing the number of personnel. The military hopes to maintain readiness by offsetting the downsizing of personnel with more sophisticated equipment as outlined below.

Royal Thai Army (RTA)

RTA recently developed a plan to modernize its wheeled armored vehicles and main battle tanks. It also plans to change 200,000 assault rifles used by rangers to a new generation model, and to set up a Command, Control, Communications and Intelligence (C3I) System. The RTA also needs about 136 training aircraft to replace its aging T-41 aircraft.

Royal Thai Air Force (RTAF)

RTAF has several major programs in their FY '96/97 budget/acquisition plan. These include a squadron of 8 second generation fighters; training aircraft; C-47 aircraft modification; AMRAAM missiles; four to six new C-130H aircraft; and a hypobaric chamber. In addition, the RTAF, in its five year plan (1997-2001) plans to invest another US \$3.2 billion for the procurement of new aircraft and for upgrading/modification programs.

Royal Thai Navy (RTN)

RTN is considering the following equipment/systems for possible acquisition: diesel powered submarines; mine countermeasure ships; airborne early warning systems, tactical data links for ships, aircraft, and shore sites; weapons systems and service life extension programs for amphibious assault vehicles; and anti-submarine helicopters.

Defense Procurement Process

There are three defense procurement processes in Thailand, first, through government to government sales (Foreign Military Sales (FMS) program), second via public tenders, and third, by direct commercial sales from foreign manufacturers. The FMS program is coordinated by the Joint U.S. Military Advisory Group, Thailand (JUSMAGTHAI). Most military hardware and software acquisitions are initiated by the individual military branches within the Royal Thai Armed Forces. Each service makes known its specific requirements for an intended acquisition, including prices, expected payment schedules, etc., and then approaches governments or invites bidders to compete for the order. For procurements of most major systems, special committees are formed composed of senior military officials. The procurement process is opaque, and politicization of that process has increased markedly over the past year.

All large procurements require cabinet approval. The Ministry of Defense can present any proposal for military procurement to the cabinet for approval. While other organizations, including the Foreign Affairs Ministry, the Finance Ministry, the Commerce Ministry, and the Office of the Prime Minister, have some influence over the approvals of large procurements, most input, comes from the individual military services.

Recently, the Royal Thai Government established a counter trade requirement for government procurement exceeding US \$20 million, but for military sales, the threshold was raised to US \$40 million. Under the new requirement, partial payment for goods and services procured by all government agencies and armed forces must be in the form of barter goods. Bidders for large-scale contracts are required to submit a "Letter of Undertaking" agreeing to accept Thai commodities in partial payment. The amount of such counter trade items is negotiated on a case-by-case basis, but averages 20 to 30 percent of the purchase price. Successful bidders negotiate a final counter trade amount with the Ministry of Commerce before a formal contract is signed. Thai commodities used in counter trade deals include rubber, rice, tapioca flour, and certain kinds of manufactured goods. In some cases, offers of technology or co-production are considered in lieu of commodities. There are restrictions on the overseas markets where counter trade commodities can be sold in order to limit competition with Thai commercial exporters.

Diversification/Commercial Opportunities

U.S. defense firms seeking to diversify will find opportunities in the following rapidly expanding infrastructure sectors:

Aerospace/Transportation
Telecommunications
Health Care

Aerospace/Transportation Sector

A new development in the aerospace sector which will provide trade opportunities for U.S. firms is Thai Airways International plan to create a Heavy Aircraft Maintenance Center (HAMC). The HAMC is one of four major infrastructure projects highlighted under the second phase development of the Eastern Seaboard New Economic Zone. Within the first phase, Thailand invested US \$12 billion to develop two seaports, a petrochemical zone and industrial parks.

In the second phase, valued at US \$8 billion, the Thai Government will continue the momentum of development in this area, focusing on transportation-related projects.

- *Heavy Aircraft Maintenance Center (HAMC)*

Under the Royal Thai Government (RTG) resolution of August 30, 1994, the HAMC project would have been a joint venture with foreign investors. However, the RTG in November 1995, decided to let Thai Airways go it alone by establishing a fully-owned subsidiary company, the Thai Aircraft Engineering Services Company Limited, to handle the project. Under this new resolution, TAESC will be privatized after it is in operation. TAESC is being incorporated as a limited liability company with a registered capital of US \$8 million. TAESC will be positioned to perform aircraft maintenance, component maintenance, and other repair work for the Thai Airways fleet and other Asian customers, as well as the Royal Thai Armed Forces.

Aerospatiale's subsidiary SORGERMA-SOCEA was the first foreign investor expressing interest to participate in the HAMC and plans to take an initial twenty percent equity. However, due to the RTG's new resolution in November, 1995, the TAESC is now open for foreign joint venture. U.S. companies have especially good prospects to participate in this project due to their comparative advantage in technology and expertise.

■ *Thailand Global Transpark*

This will be a US \$100-200 million just-in-time industrial park for manufacturing and distribution proposed for the Utapao Airport by the National Economic and Social Development Board (NESDB). A preliminary feasibility study was funded by the U.S. Agency for International Development. The "transpark" concept was developed by the Kenan Institute of Private Enterprise in North Carolina. The U.S. Trade and Development Agency (TDA), on September 27, 1995, approved a grant of US \$495,000 to support a comprehensive feasibility study of this project. In addition, the RTG has approved the Eastern Seaboard Development committee's request for another US \$1 million to co-support this study project. Selection of a consulting engineer is underway.

■ *Second Bangkok International Airport (SBIA)*

A US \$4 billion project scheduled for completion by 2001, the construction of SBIA by the New Bangkok International Airport Company Ltd, a subsidiary of the Airports Authority of Thailand (AAT), will provide trade opportunities for U.S. firms. The SBIA was initiated by the AAT and was approved by the RTG in April 1991. The responsibility for project implementation was transferred to NBIA Company Limited in April 1996. The project will be constructed in three phases: Phase One, which began in 1992-93, consisted of preliminary planning and design with NACO/Louis Berger as general engineering consultant; Phase Two, which began in 1994 and completed in 1996, concentrates on design and engineering specifications; Phase Three is the construction phase, to begin in 1997.

In 1995, AAT awarded contracts to two U.S.-led consortia and one Taiwanese consortium for the detailed engineering designs for the following projects:

- US \$33.9 million design contract for the construction of a \$1 billion passenger terminal (Murphy Jahn/TAMS/ACT)

- US \$5.5 million airfield pavement design contract (DMJM)
- US \$2.0 million airport roads design contract (MOH Associates)

Additional contracts or concessions to be let in the medium term will cover:

Central utilities
 Transformer stations
 Permanent utilities (electrical, communications, water supply, waste management, etc.)
 Air traffic control, radars, navigation aids
 Aircraft fueling system
 Medical building design/construction
 Cargo terminal design/construction
 Aircraft maintenance facilities
 Hotel development
 Express freight terminal
 Equipment and supplies for terminals

■ *High Speed Intercity Train Service*

In August 1994, the Thai Cabinet approved a High Speed Rail project to interconnect Bangkok and Rayong province directing that the State Railway of Thailand (SRT) will lead project development and for the private sector to play as large a role as possible. In September 1994, the U.S. Trade and Development Agency (TDA) granted US \$500,000 through the Office of the National Economic and Social Development Board (NESDB) to the RTG to fund the cost of a Feasibility Study. The NESDB hired a U.S. consultant, Wilbur Smith Associates, to conduct the study. Wilbur Smith submitted its final report on the project to NESDB in November 1995. In March 1996, the SRT Board of Directors agreed to spend US \$1 billion right-of-way land acquisition, building the track, stations, a depot, a maintenance center, and other facilities. The Board also approved a proposal to invite the private sector to supply rolling stock and operate the system. Private participation value is estimated at US \$440 million. The Bangkok-Rayong route will be about 200 kilometers in length with standard gauge track and train speeds at about 160 kilometers per hour.

■ *Metropolitan Rapid Transit*

To solve the chronic traffic problems in the Bangkok Metropolitan area and its vicinity, the RTGT finally gave its approval for the Metropolitan Rapid Transit Authority (MRTA) to proceed with construction of a heavy rail transport system covering approximately 20 kilometers from Hualamphong to Bang Su. Approximately one half of the route will be underground with the rest elevated. A depot will be located at the middle of the route at Huai Kwang. Total investment is estimated at about US \$2 billion. MRTA recently awarded a US \$38 million contract to De Leuw Cather International to be project management.

For more information about these transportation projects, contact either the Commercial Service at the U.S. Embassy or the following Thai points of contact:

HAMC

Mr. Chusak Bhachaiyud
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Thai International Airways
89 Vibhavadi Rangsit Road
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Second Bangkok International Airport

Mr. Priti Hetrakul, Managing Director
New Bangkok International Airport Company Limited (NBIA)
c/o Airport Authority of Thailand (AAT)
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High Speed Train

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Dr. Suwat Wanisbut, Director
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Mass Transit System

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Telecommunications

Telecommunications is one of Thailand's fastest growing infrastructure sectors. The market for telecommunications equipment in Thailand in 1995 totaled approximately US \$2.4 billion. The United States, Japan, and Europe (mainly Germany, Sweden and Finland) were the major suppliers, each holding about 25 percent market share. The annual market growth rate is estimated at 20 percent. The on-going and planned projects include: installation of 4.9 million fixed telephone lines, the planned installation of 6 million additional fixed telephone lines, the launch of a third satellite (Thaicom 3), the launch of a Thai-Laos joint venture satellite (L-Star 1 and L-Star 2), the construction of satellite earth stations, and the construction of new cable television stations. In addition, the Thai Ministry of Defense is in the process of seeking approval from the Cabinet for the investment of approximately US \$1 billion for a Thai military satellite (Star of Siam) project. The Star of Siam system will consist of two satellites, two master control stations, and a series of fixed and mobile terminals. The two satellites, as planned, will have a total of 24 transponders -- two C-Band transponders; four X-Band transponders; and 18 KU-Band transponders.

Medical Equipment

Thailand is one of the largest markets in Southeast Asia for medical equipment. In 1995, there were 1,326 hospitals and health care centers in Thailand. Currently there are approximately 39 new hospital projects which have received promotional privileges from the Thai Board of Investment with a combined investment of US \$533 million. Most of these projects are underway and are expected to be completed within the next few years. One third of this investment (US \$190 million), will be spent on medical equipment and machines. These new hospital projects will provide ample market opportunities for U.S. firms in a variety of hospital/medical equipment sub-sectors.

Royal Thai Government Points of Contact

Listed below are additional ministries and organizations in Thailand that are involved in the procurement of defense equipment as well as commercial products.

Office of the Prime Minister
National Economic and Social Development Board
The Metropolitan Rapid Transit Authority (MRTA)

Ministry of Commerce
Counter trade

Ministry of Finance

Ministry of Transport and Communications
Airports Authority of Thailand
Department of Aviation
Thai Airways International Limited
Port Authority of Thailand
State Railway of Thailand
Telephone Organization of Thailand

Ministry of Public Health

Ministry of Interior
Bangkok Metropolitan Administration

Doing Business in Thailand

The key to successful sales to the Thai defense industry is to have a reputable local representative with access to the military services and knowledge of specific requirements. Without the assistance of an effective representative, it is nearly impossible to do business. Local representatives are an accepted, legitimate part of the bidding process.

In Thailand, it is important to develop a close relationship with one's representative and the Thai customers in both the defense and commercial sectors. It is often beneficial to rotate American engineers to work with the local representative to assist with training of the Thai customer and accompany the sales team on client visits. This will strengthen the relationship with the local representative as well as with the Thai customer.

Because many U.S. products are sophisticated in nature, manufacturers need to develop a comprehensive and reliable service network with the assistance of the local representative. End-users in Thailand sometimes are dissatisfied with the level and price of technical service provided by manufacturers' representatives. This is due to the lack of sufficiently trained service engineers and technicians. To overcome this problem, comprehensive training should be included with any sale so that customers are sufficiently prepared to handle any on-site problems. Highly technical service and support should be handled directly by the U.S. company.

Technology Transfer

Given the rudimentary nature of the domestic defense industry, the Thai Government to date has not required offset or other technology sharing agreements as is the case in other countries. However, Thai officials are currently deliberating the merits of offsets and may

introduce this type of requirement in the future. In anticipation of these developments, some U.S. defense contractors have incorporated technology transfer packages into their proposals to enhance competitiveness.

In many large commercial projects, the Thai Government and the implementing state enterprises do not require significant local content. However, to increase price competitiveness, U.S. firms often maximize local content in selected areas.

Intellectual Property Protection (IPR)

Although the Thai Government has put into place a system of laws that protect intellectual property rights in the copyright, patent, and trademark areas, enforcement remains a serious issue. U.S. firms should protect themselves by registering all of their intellectual property. Lawyers specializing in this area can initiate legal actions to combat piracy, although this can be a lengthy process. The Thai government is also taking legislative and administrative steps to update and increase enforcement of existing copyright laws. Following the passage of copyright bills in 1994, the U.S. government moved Thailand from the U.S. Trade Representative's "priority watch list" to the "watch list". The U.S. Government continues to monitor Thailand's progress in implementing protective measures.

U.S. Government Points of Contact

The following is a list of useful contacts for U.S. firms interested in the Thai market.

U.S. Commercial Service:

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LTC. Steven L. Rundle, Army Division Chief
Cap. Gregory R. Ostrowski, Navy Division Chief
Col. Anthony J. Sobol, Air Force Division Chief

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