



Centre for ASEAN Studies



Centre for International Management
and Development Antwerp

Thai-Belgian Cooperation in Trailer and Container Building

**Ludo Cuyvers
Philippe De Lombaerde
Beatrix Dewulf
Orose Leelakulthanit
Danny Van Den Bulcke
Lorna Wright**

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This case was prepared by Ludo Cuyvers (University of Antwerp, Belgium), Philippe de Lombaerde (CESA, Columbia), Beatrix Dewulf (formerly at NIDA, Thailand), Orose Leelakulthanit (NIDA, Thailand) and Danny Van Den Bulcke (University of Antwerp, Belgium). It has been arranged and edited for teaching purposes by Lorna Wright (NIDA, Thailand and Queen's University, Canada). The names of the companies have been changed to protect their interests.

1. Case study Belco

Belco NV, a Belgian trailer and container building company, was looking for new markets and growth opportunities. Given the history related below, what advice would you give the head of the company?

Belco was formed in 1988 by Mr. Smedt and two partners. With a paid-up capital of 10.1 million BEF (US\$340,000), 30 employees and an annual production of 1,050 units a year, Belco was considered a medium-sized producer of container chassis and harbour trailers in Belgium. It had cutting edge production technology and a wide product range. It specialised in custom-tailored products, which accounted for 80% of their production.

In 1992, Belco had a turnover of 170 million BEF (US\$5.6 million) which was 150% increase over their first year of production in 1990. Exports to European countries increased equally dramatically, from 13% of turnover in 1990 to 52% in 1992 and the mix also changed. By 1993, sales to Germany alone accounted for 80% of Belco's total exports, whereas in the beginning, 70% of their exports went to the Benelux countries and the remainder to Denmark.

By the end of the 1980's, however, Mr. Smedt felt that Belco could not expand further based solely on the European market. By 1992, the German trailer market was saturated, and in 1993 there was a 28% fall in the European trailer market, due largely to a downturn in the European truck market.

His dilemma now was where to expand. He ruled out the recently opened Eastern European market since there were already many companies subcontracting there, and the quality of production did not meet Belco's standards. Although he had no experience in Asia, he was aware of the potential of the SE Asian market through reports he read in the newspapers. He contacted the regional office of the Flemish Foreign Trade Board (FFTB) in Antwerp, Belgium and requested further information. FFTB suggested Thailand, Malaysia, and Indonesia as interesting markets. Mr. Smedt also applied for and received a grant of 815,000 BEF (US\$ 30,000) from the Belgian Foreign Trade Fund for several business trips to Thailand, Malaysia and Indonesia.

He decided against pursuing Malaysian opportunities for several reasons. There was both strong competition and high import duties there. He wasn't happy with the efforts of the Belgian commercial attaché in Kuala Lumpur either. Finally, he felt that the overriding interest of the Malaysian companies was in technology transfer rather than joint business.

The Belgian commercial attaché in Jakarta convinced him that the time was not ripe to enter the Indonesian market because of the minimum size of industrial projects required by the Indonesian government, and also because Germany had just opened huge credit facilities for Indonesian importers, putting Belgian exporters of industrial products in an uncompetitive position.

Based on further in-depth studies, Mr. Smedt decided that Thailand was the most interesting market because of its high rate of economic growth and market potential. A market study carried out by the

commercial attaché at the Belgian embassy in Bangkok showed a registered annual growth rate of trailer demand of more than 10%, expected to increase even further throughout the rest of the 1990's. Moreover, a gradual shift from the traditional two and three axle trucks towards truck-trailer combinations of higher capacity was expected, thus opening the truck market to trailer builders.

Another factor likely to boost demand for trailers in Thailand was the development of the Laem Chabang deep sea port about 160 km from Bangkok. Development of the road infrastructure in the entire Mekong delta region would also boost demand for trucks and trailers.

1.1 Choosing a partner

Belco had three options for approaching the Thai market: 1) exporting, through an agent on a commission-based sales agreement; 2) licensing local production or assembling; 3) a joint venture for local production or assembling.

There were high import duties on trailers (e.g. 47% for skeleton chassis) and high transportation costs to consider for the first option, and the dilemma of who to choose as a partner for the second two.

The list of local trailer manufacturers in Thailand included Thaico, Conthai, Kornchan, Sunap, Champion, Young Transpo, and K.M.I. Some of these were 100% Thai owned; others were joint ventures with foreign companies. Belco had no experience with any of the companies, so Mr. Smedt contacted them all by letter in May 1992 (See Exhibit 1). However, very few replies were received, so he had the Belgian Embassy follow up by phone.

After gathering all the information he could on the local trailer companies, he found that only two companies were interested: Sunap and Thaico. He visited both in September 1992.

1.2 Sunap

Sunap was the largest trailer and container builder in Thailand established in 1972 and producing about 120 containers per month in 1992. It had 250 employees and a turnover of about 500 million baht a year (US\$ 20 million). While Belco was looking for a Thai partner, Sunap was also looking for a European partner for technology transfer, particularly in the areas of welding technology for mega-trailers (100m³) and air-suspended Huckle park trailers. They were also looking for a better sourcing of parts and support for the development of its exports. They already imported parts from the UK (axles), the Netherlands (landing gears), and Germany (fifth wheels). Capital input was not necessary, since Sunap was financially able to build the chassis themselves. A partner would be expected to contribute know-how.

Mr Smedt was uncomfortable with Sunap since he felt they were more interested in technology transfer than a joint venture; resisted having any written agreement; were a low quality producer (for example, using Chinese axles); and were too large for Belco.

1.3 Thaico

Thaico was a family business established in 1987 with a paid-up capital of 30 million baht (US\$1.2 million), turnover of 100 million baht (US\$4 million) and 120 employees. They were the largest container maintenance company in Thailand, specialising in refrigerated containers (reefers). They also had a number of related activities, such as producing domestic air conditioners, manufacturing and distributing portable site offices, and manufacturing and operating reefer containers.

Thaico was interested in expanding their market into other countries in Southeast Asia. They also felt that, since they used a lot of trailers, it would be a good idea for them to assemble them themselves. They were looking for a partner who could help them achieve three objectives: 1) enter new markets, 2) produce better quality products, and 3) develop a new "package product" combining generator sets and chassis, which would reduce the amount of handling refrigerated goods received (meaning they would receive less damage) and lead to higher transported volumes.

Mr Smedt felt more comfortable with Thaico since he felt their style of business was more Western and therefore easier for Belco to deal with. It was also closer to Belco in size and age.

1.4 Questions

1. What do you think about Belco's market research on new markets for expansion? Was Thailand a wise choice?
2. Which entry strategy would you recommend for Belco?
3. What criteria should Belco use for choosing a partner, if they decide on a licensing or JV strategy?
4. Which partner should Belco choose? Why?
5. How should they structure an agreement with that partner? What should it include?

EXHIBIT 1

U/ref.:

O/ref.: 699/JJL/MVD

27th May 1992

Dear Sirs,

We understand from the Flemish service for foreign trade, through its economical representative Mr. Van de Berghe, that you may be interested in our products.

BELCO is a trailer manufacturing company located in Malle (Antwerp). As you may have noticed in our enclosed documentation we have a flexible production which allows us to manufacture both tailor-sized as well as standard series, with acceptable delivery time.

The BELCO product range covers:

1. trailers and semi-trailers for various purposes
2. flat, container, tilt, curtainsider, tipper, GRP and reefer bodies
3. special products as livestock bodies, heavy-duty low-loaders, trailers for mobile power stations.

Do not hesitate to let us know which specific material you would be interested in.

We hope you will see a worthwhile opportunity in importing our products, and are looking forward to hearing from you shortly, or eventually meeting you on my business trip planned in the near future.

Yours faithfully

Mr. Smedt
Managing Director

2. Case study Thaico

Thaico, a Thai container handling company, was looking for new markets and growth opportunities. Given the history related below, what advice would you give the head of the company?

Thaico was a family business established in 1987 with a paid-up capital of 30 million baht (US\$1.2 million), turnover of 100 million baht (US\$4 million) and 120 employees. They were the largest container maintenance company in Thailand, specialising in refrigerated containers (reefers). In 1992, they handled about 400 TEU's (Twenty-foot Equivalent Units) per month in the port of Bangkok.

They also had a number of related activities in three subsidiaries: manufacturing and distributing domestic air conditioners in AIRCO (paid up capital of 8 million baht or US\$320,000); manufacturing and distributing portable site offices in SITE OFFICE (paid up capital of 10 million baht or US\$400,000); and operating short sea reefer containers with its own fleet through PRIME EXPRESS Ltd. (paid up capital of 10 million baht or US\$400,000). (Details of Thaico's operations are provided in the company profile in Exhibit 2)

Thaico realised that business opportunities in the Asian region were growing. In Singapore, Hong Kong and Taiwan there was a huge demand for container transport. Hong Kong was the most active container port in the world with an annual turnover of about 10 million TEU's. Singapore was not far behind with 9.6 million TEU's exported per year, with 15% of that in reefer containers. The local Thai market was also growing as exports increased. Goods needed to be transported from all over the country to the port of Bangkok.

As a growing container handling company, Thaico used many trailers and felt it would be better to assemble these themselves. They began to look for a business partner throughout ASEAN and in Hong Kong through their handling agent's network.

Since they already acted as the agent for several generator set (gen-set) manufacturers, Thaico felt a logical area to explore was the development of a "package product", combining gen-sets and chassis. These trailers could then be used to transport reefer containers, answering the demand in the shipping industry for less handling. With the conventional refrigerated trucks, double handling is needed, leading to greater opportunities for damage and necessitating smaller transported volumes. The "package product" would have the advantages of less handling needed, so transportation costs could be reduced up to 30%; the quality of the goods would be better controlled; and a better service would be offered to exporters.

As clients in the region complained about the quality of local products, Thaico also wanted to find higher quality imported products. Also, since this would be a new area for them, they wanted a partner who already had the technology and could help them get started. They had three criteria for a partner: 1) be able to help Thaico enter new markets, 2) be able to help Thaico produce better quality products, and 3) be able to help Thaico develop the new "package product".

Through its marketing director, John Tan, Thaico had contacted Sunap and KRC in Thailand, SN Cool in Malaysia, Roo Heng in Singapore, and Sing Kwan in Hong Kong as possible partners. For various reasons, none of these contacts resulted in cooperation. Potential partners in Japan were ruled out because they were not cost competitive, given the rising yen, and Chinese producers could not provide the necessary technology and design.

It was just at this time that Thaico was contacted by the Belgian Embassy with regard to Belco, a Belgian trailer manufacturer who was also looking for a partner in Southeast Asia. John Tan felt this contact was worth pursuing since they had high quality standards and good technology.

2.1 Belco

Belco was formed in 1988 by three Belgian partners. With a paid-up capital of 10.1 million BEF (US\$340,000), 30 employees and an annual production of 1,050 units a year, Belco was considered a medium-sized producer of container chassis and harbour trailers in Belgium. It had cutting edge production technology and specialised in custom-tailored products, which accounted for 80% of their production

Their export market was almost exclusively in Europe, with 80% going to one country, Germany. In 1992, Belco had a turnover of 170 million BEF (US\$5.6 million) which was 150% increase over their first year of production in 1990. Exports increased equally dramatically, from 13% of turnover in 1990 to 52% in 1992.

Mr. Smedt, the managing director, felt that Belco could not expand further based solely on the European market. By 1992, the German trailer market was saturated, and in 1993 there was a 28% fall in the European trailer market, linked to a downturn in the European truck market.

He ruled out the recently opened Eastern European market as an expansion possibility, since there were already many companies subcontracting there, and the quality of production did not meet Belco's standards. Although he had no experience in Asia, he was aware of the potential of the Southeast Asian market through reports he read in the newspapers. He decided to concentrate there and the Belgian Embassy in Bangkok put him in touch with Thaico, among other companies.

2.2 Questions

1. What strategy should Thaico follow to achieve their objectives? What criteria should they use in choosing the strategy?
2. How suited are Thaico and Belco as partners?
3. Should they continue to pursue a relationship with Belco? Why/Why not?
4. If they do continue, how should they structure any agreement with Belco? What should it include?

EXHIBIT 2

ref 94/020

March 16, 1994

To whom it may concern

Dear Sir,

Subject: Company Profile

We are pleased to submit our company profile for your better understanding.

A. THAICO LTD

It is registered in Thailand since 1987. The paid up capital is 30 Million Baht. The main activities of the Company are:

a. WARRANTY CENTRE AND AUTHORIZED SPARE PARTS DEALERS OF ALL BRAND REEFER CONTAINER MACHINERY MANUFACTURERS.

She is being appointed by all brand of reefer-container machinery manufacturers as warranty centre and authorized spare parts dealer in Thailand. The reefer container machinery manufacturers are:

1. Seacold
2. Thermoking
3. Carrier
4. Paul Klinge (Sabroe)
5. Daikin
6. Mitsubishi

b. REEFER CONTAINER DOMESTIC LEASING

THAICO also providing reefer containers for domestic leasing in Thailand and neighbour region. Presently, she is having about 20x40' and 65x20' in the domestic leasing fleet. The rate of domestic-lease reefer containers are:

1. 20' RF - Baht 12,000.00 per month
2. 40' RF - Baht 22,000.00 per month

Remarks: Maintenance/Repairing are provided by THAICO

c. BUY AND SALE REEFER CONTAINERS

THAICO also buy and sell "used" reefer containers in Thailand or nearby region. In addition THAICO has providing refurbished reefer containers for sale in Thailand and nearby region. The prices of refurbished reefer containers for sale are:

- a. 20' RF USD 6,000.00
- b. 40' RF USD 8,500.00

Remarks: Body condition is 85% as brand new.

d. P.T.I. MONITORING AND REPAIRING TO SHIPPING LINES REEFER CONTAINERS

THAICO also being appointed by more than 12 major shipping lines in Thailand to provide P.T.I. monitoring and repairing services to their short sea reefer containers.

e. COLD ROOM MANUFACTURER

THAICO also being recognised as one of the major and well known cold room manufacturer in Thailand. The bigger cold rooms project ever completed by THAICO or in the process of constructing are:

1. Rose Garden Hotel - 10 million baht (1993)
2. Thailand Government Central Cold Storage - 200 million baht and is expected to start on 1/2/94
3. Thailand University - 8 million baht (1992)

f. BELCO CHASSIS MANUFACTURER AND ASSEMBLY FACTORY

THAICO and BELCO (Belgian Trailer/Chassis Manufacturer) has been formed up a joint venture company in Thailand to manufacture and assembly format chassis and trailers in a multi purpose modern factory which situated in Sampran's Industrial Estate. The total investment on the factory' is USD4 millions. The main markets of the chassis/trailers are:

1. Bangkok Port Authority
2. Major TPT Co' s in Thailand
3. Vietnam/Malaysia
4. THAICO's own use

g. KEMILITE GLASBORD AUTHORIZED DISTRIBUTOR IN THAILAND

THAICO is officially appointed by USA Kemlite glasbord manufacturer as an authorised distributor in Thailand. The product of Kemlite glasbord has been accepted by most restaurant operators, hospital operators, food industry, construction companies, reefer container manufacturers, cold room-builders etc. The average turn round revenue is expected more than 2-3 million USD yearly.

h. MULTI-PURPOSE MODERN FACTORY APPROVED BY B.O.I. (BOARD OF INVESTEMENT THAILAND) WITH 10 YEARS TAXES PRIVILEGES.

The newly build multi-purpose modern factory main activities are included the following:

1. Refurbishing of Reefer containers (2x20' RF per day)
2. Modification of all brand reefer container's machinery freon system from R12a to R134a (4x20' RF per day).
3. Assembly of BELCO chassis/trailer (1x40' or 2x20' per day)
4. Injection of P.U. foam for the insulated reefer container panels (2x20' RF per day).
5. Kemlite glasbord with P.U. foam panel preparing process (400 M2 per day).
6. Major repairing to "used" reefer container (3x20' RF per day).
7. Carrier Geri-set installation works.

All in all, THAICO LTD. staff/technician strenght will be around 200 by 12-94 (presently, she is having only 130 staff/technicians).

B. "AIRCO" Domestic air-con manufacturer and distributor in Thailand

AIRCO company is a subsidiary of THAICO LTD. The paid up capital is about 8 million baht since 1991. The main activities in the company are:

- a. Wholesale of "UNICOGL" brand domestic air-con in Thailand.
- b. Contract tender for office builder and condominium construction companies.
- c. Providing installation and servicing to customers including other brand air-con.
- d. Selling domestic air-con accessories /spare parts.

C. SITE OFFICE (SO) (portable site office manufacturer)

SO is subsidiary company to THAICO LTD. The total paid up capital is 10 million baht. Her main activities are:

- a. Construction of site portable office (equipped with air-con, and toilet features)
- b. Sale of stand are 20' and 40' portable site office to over-sea markets.

The average turn round revenue is 20-30 million baht per year and equipped/with only 40 technicians/staff in the own factory.

D. PRIME EXPRESS LTD. (PEL)

PEL also a subsidiary company to THAICO LTD. Her paid up capital is only 10 million baht but with addition investment on reefer containers of 20 million baht. The main activities of PEL are:

- a. Short sea NVOCC reefer containers ops.
- b. Short sea lease of genstar "used" reefer containers in this region
- c. contract reefer cargoes shipment in this region i.e. HK, SIN, MALAYSIA, INDONESIA, TAIWAN, CHINA, KOREA, VIETNAM, etc.

Presently, PEL owns 35x40' RF and 33x20' RF in her fleet to cater for BKK, SIN, HK, KAOHSIUNG routes.

We sincerely hope that all the above brief info can meet with requirement and give you better understanding on our company profile.

Sincerely yours,

Marketing Manager THAICO

3. Case study: the joint-venture

The timing was right. It was 1992 and both Belco NV, a Belgian trailer manufacturer, and Thaico, a Thai diversified company whose major business was the servicing of refrigerated containers, were looking to expand their markets.

Belco liked Thaico because it was a young, small, independent company like themselves, and like themselves, had a Western business outlook. Since Belco had no previous Asian experience, this gave them a comfort level they did not have with other potential partners. Thaico, for its part liked Belco because of its experience in manufacturing trailers, which was a new area to Thaico, and its high quality standards.

3.1 The Agreement

Most of the research Belco did prior to signing an agreement with Thaico was on the pricing of components in Thailand, so that they would know what was best to source locally and what would need to be imported from Belgium. Mr. Smedt made three trips to Thailand and spent about a week each time talking to Thaico's marketing manager and Mr. Sochart, the managing director, when he was available and had time.

Thaico did little investigation into Belco, but felt that it was a company that knew its business and could be useful to Thaico in setting up a new trailer venture. Thaico had never manufactured trailers, so this was an area that they were both not experienced in and felt required great technical expertise.

Although Mr. Smedt invited Mr. Suchart to visit Belco in Belgium, he had never been able to find the time to go. However, in September 1993, a letter of intent was signed between the two companies for the supply of trailers from Belgium. The first supplies reached Thailand in October 1993. Following this, an engineer and a technician came over from Belgium for two weeks to assist in the assembly of two prototype chassis: one 40' skeleton and one 20' skeleton.

On November 10, 1993, a formal agreement was drawn up by Mr. Smedt and officially signed by both companies in Bangkok after only three meetings between the two principals, Mr. Smedt and Mr. Suchart. For Mr. Suchart, the verbal "gentleman's agreement" he felt he had reached with Mr. Smedt was more important than the written document itself.

The contract was structured as a sales and assembly agreement for trailers and semi-trailers, with the stated intention of establishing a joint venture within six months. The joint venture would have an initial capital of about 100 million baht (US\$4 million) and a 50-50 ownership. (See Exhibit 3 for details of the agreement.)

It was planned that in 1994 the joint venture would produce 300 units. By 1996-7, annual production would be increased to 1,000 units. As an interim measure before the joint venture became operational, Thaico would act as the agent for all Belco products in Thailand. A "joint venture fund" would be

formed with 10% of the profit from these products, but precisely what the fund would be used for was not specified. The same system would apply for Belco, if they sold Thaico's products in Europe.

It was agreed that both partners would supply the capital of the future joint venture on a fifty-fifty basis. In addition, Belco would be responsible for technical know-how and Thaico for domestic marketing.

Although not written in the agreement, the product strategy aimed at offering higher quality, more efficient and safer products than competitors. The competitive features of the trailers would come from Belco's production technology. In particular, the method of treating high tensed steel was important in making the product more durable than local production using ordinary steel.

Using high tensed steel would be more cost-effective in the long-run as the weight of the steel would be much lower and it would have a longer life. However, in the short-term, it would cost more because it could not be produced locally and high tariffs and high transportation costs would add to the price. Currently a locally made 20-foot chassis would sell for about 220,000 baht (US\$8,800) and a 40-foot chassis for 330,000 baht (US\$13,200). The same trailers with Belco's design and imported materials would cost about 380,000 baht (US\$15,200) and 480,000 baht (US\$19,200) respectively.

The major market for the chassis trailers would be Thaico's existing pool of customers, including the Bangkok Port Authority, major Thai petrochemical industry (TPI) companies, and Thaico itself. Eventually, they planned to expand into Indochina.

3.2 Questions

1. What is your opinion of the agreement?
2. What is your prognosis for the future of this joint venture? Give reasons.
3. What did the partners do right?
4. What did the partners do wrong?
5. What advice would you give the partners now?

EXHIBIT 3

AGREEMENT FOR SALES AND ASSEMBLY OF TRAILERS AND SEMI-TRAILERS

1. CONTRACTING PARTIES

The agreement is concluded between:

BELCO (hereinafter called manufacturer Belgium)

Corporation established under Belgian law

on one part, and

THAICO (hereinafter called partner) Thailand

Corporation established under Thai law

on the other part.

2. CONTRACTUAL BASE

The manufacturer is specialised in manufacturing trailers, semi-trailers, ancillary and terminal equipment.

The partner is carrying on a business in leasing, maintenance, refurbishing of containers, sales and maintenance of reefer units 'CARRIER', transport activities, manufacturing of modular cool storage, portable site office containers, and air conditioners 'UNICOOL'.

The partner's activities in respect to sales, lease and assembly of trailers shall only be of the manufacturer's origin.

3. APPOINTMENT

The manufacturer hereby appoints the partner, upon terms and conditions set forth, an exclusive agency in assembly sales and lease for trailers, semi-trailers, ancillary and technical equipment and spare parts hereinafter referred to as 'TRAILERS'.

Effective from November 1st for a period of 6 months.

4. NATURE OF THE AGREEMENT

This agreement starts as an agency relation until 1 st May 1994. The new joint-venture will equally be held by the partner (50 %) and the manufacturer (50 %). If parties by that time did not find a mutual base for the set-up, the agreement shall be reviewed by both parties and either continue in an acceptable way for both parties or terminate. The new joint-venture will tentatively set on by January 4th 1994.

5. TERRITORY

The partner hereby acknowledges the limit to the territory of Thailand, hereinafter referred to as 'THE TERRITORY'.

Expansion to other foreign markets can only be undertaken with agreement of the manufacturer, as an attached appendix to the agreement.

6. AUTHORITY

The partner and the manufacturer acknowledge that they do not make contracts of any sale arrangements on behalf of the other party without prior consultation.

7. PERFORMANCE OF THE PARTNER

The partner agrees to assemble the trailers and to use its best efforts to promote the sale of the trailers in the territory.

The partner is responsible for all costs of advertising and publishing material regarding trailer activities unless otherwise agreed.

The partner agrees to have a minimum stock of spare parts to insure repairs and service.

The partner provides the manufacturer with information, drawings, price settings, etc. for all parts to be purchased locally.

8. PERFORMANCE OF THE MANUFACTURER

The manufacturer provides the purchase coordination of parts to assemble trailers.

The manufacturer provides detailed drawings, assembly guides and technical assistance.

He offers both assembly and manufactory assistance upon terms and conditions set forth (appendix A).

9. FORMS AND PROCEDURES

Only applicable in case of joint-venture - see appendix B.

10. PRICES

Only applicable in case of joint-venture - see appendix C.

11. INVESTIGATION OF POTENTIAL PURCHASERS

Only applicable in case of joint-venture - see appendix D.

12. BILLING AND COLLECTING REVENUES

Only applicable in case of joint-venture - see appendix E.

13. PERMISSIONS AND LICENSES

The partner acknowledges and agrees that he applies for necessary permission and licenses for the import of trailers to the territory. In case of joint-venture - see appendix F.

14. CLAIMS AND COMPLAINTS

The partner is entitled to receive observations, claims and complaints made by purchases in respect to delivered parts, partly or fully assembled trailers. The partner shall immediately inform the manufacturer, and provide objective information, pictures and description.

15. DEALERS

The partner may engage dealers to assist him in his territory. The partner shall be entirely responsible for the activities of his dealers.

In case of joint-venture - see appendix G.

16. TRADEMARKS AND INDUSTRIAL RIGHTS

All styles, logos, trade names, trademarks and brand names remain the sole property of the manufacturer and must not be used by the partner without written consent of the manufacturer.

Drawings, calculations and other documents remain property of the manufacturer.

17. RECORDS AND BOOKS OF ACCOUNT

Only applicable in case of joint-venture - see appendix H.

18. INVESTMENTS

If the partner desires to invest in machinery, stock of goods or buildings for the purpose of the fulfillment of his obligations, it is understood that the partner shall not be entitled to any compensation by the manufacturer during or at expiration or termination of this agreement. In case of joint-venture - see appendix 1.

19. EXCLUSIVE

The manufacturer shall not grant any other person or undertaking the right to sell the trailers in the territory.

The manufacturer agrees, subject to all laws, regulations and orders of the Belgian government and of the government applicable with respect to the territory.

In case of joint-venture - see appendix J.

20. SUPPLY OF INFORMATION

The manufacturer shall provide the partner with all information and documents necessary for the exercise of his activities.

21. TECHNICAL KNOWLEDGE

The manufacturer shall assist the partner in acquiring technical knowledge.

22. TERMINATION DUE TO VIOLATION

In event of either partly violating the terms and conditions of the agreement, the other party may terminate the agreement with a six months written notice of termination.

A similar right shall also apply should any of the following events occur. If at any time during the term of this agreement there shall be filed against the other party a petition in bankruptcy, or insolvency, or for re-organisation, or for the appointment of a receiver, or for a trustee of all or a portion of the property, or, if any similar proceeding shall be instituted in countries in which the foregoing is not applicable, and within 30 days thereof the party fails to secure a discharge thereof, or if the party makes an assignment for the benefit of creditors, or fails to pay its debts as they occur for any reason other than the existence of a bona fide dispute with respect thereto, this agreement may be immediately terminated by the innocent party and the party in default shall immediately comply with all the terms of this agreement regarding termination.

23. APPLICABLE LAW

The agreement is drawn up and shall be terminated in accordance with the Belgian law. Any dispute, not amicably settled, shall be referred to arbitration court in Belgium. The arbitration shall be conducted in the English language. The arbitral award shall be final and binding on the parties, and may, if necessary, be enforced by a court in the same manner as a judgement delivered by a court of justice.

24. VALIDITY AND TERM

The term of this agreement shall commence as of November 1st and shall remain in full force and effect until 1st May 1994. It shall thereafter continue for an indefinite period of time and either party shall have the right to direct at any time, a six months written notice of termination, signed by an officer of such party, to the other.

25. DELIVERIES

Unless otherwise mentioned are all deliveries ex-works Malle Belgium.

26. INVOICE-PAYMENT

The manufacturer shall provide the partner in due time with invoices, bills of lading etc. The partner acknowledges the payment by irrevocable letter of credit. The handled currency shall be German Marks (DM).

If agreed upon other conditions could be accepted after written approval between parties.

In case of joint-venture - see appendix K.

27. NOTICES

All notices provided for or mentioned in this agreement shall be in writing, sent by registered mail, and signed by the party given such notice or by its attorneys in fact and shall be addressed to the party for whom said notice is intended, at their respective addresses above.

All such notices may be served by delivering a copy personally against receipt to the party to whom they are addressed. If delivered personally, then the date of such delivery shall be the effective date thereof. If given by registered mail, then the date on which the same is delivered to the post office for delivery shall be the effective date thereof.

Changes of address shall be given in the same manner.

28. INVALID CLAUSES AND AMENDMENTS

In the event one or more clauses of the agreement are invalid, the validity of the remaining clauses shall not be affected thereby.

This agreement contains the entire understanding, of the parties and there are no commitments, agreements or understandings between the parties other than those expressly set forth herein. This agreement shall not be altered, waived, modified or amended except in writing, signed by the parties hereto.

In witness whereof the parties here to have caused this agreement to be executed in duplicate by their duly authorised officers the day and year first above written.

Drawn up in Bangkok, 10 th November 1993, in two copies.

Appendix A - Performance of the manufacturer

The manufacturers assist in

- supplier access
- purchase coordination
- technical assistance and training
- drawings and calculations
- factory lay-out
- management
- marketing and sales
- equipment
- construction of trailers assembly

hereafter called 'know-how.

This knowledge represents a considerable value, which the partner hereby acknowledges.

In the stage of an agency relation parties agreed upon as followed.

- In case of technical assistance and training by BELCO in the territory, the partner covers all travel and accommodation costs, as well as the labour cost of the manufacturer's technician(s).
- Construction, equipment, drawings and calculations shall be billed as license fee.
- Purchase coordination, supplier access, factory lay-out, management, marketing and sales shall be billed as management fee.
- Both license and management fees exclude travel, accommodation and staff costs.

The values:

- staff: DM 120 per hour
- labour. DM. 70 per hour
- license: DM 100.000
- management: DM 100.000

If parties do not find a mutual base for establishing a joint-venture by March 1st 1994, the license and management fee will be paid by the partner to the manufacturer.

If a joint-venture company is established, the license and management value shall be handled as an asset.

Appendix B - Forms and procedures

Only in case of joint-venture.

- All sales orders of trailers shall be transmitted to the manufacturer for co-acceptance and execution.
- All orders for sales, repairs, warranty, spare parts must be filled out on special forms.
- In case of warranty a description of failure is needed, all replaced parts must be kept for further investigation and acceptance by the supplier or the manufacturer.
- Warranty will be granted only after final investigation and acceptance of the supplier or manufacturer.
- Records with regard to all activities shall be properly kept, and be available to both parties at the office.
- Stocks in raw materials, spare parts and other goods in common decision and approval.
- Warrant given by the manufacturer is the warranty which the manufacturer receives from his suppliers. For the assembly done by the manufacturer a warranty of 12 months applies.

Appendix C - Prices

Only in case of a joint-venture.

- The partner shall at all times attempt to obtain the most favourable prices for the manufactured products.
- A minimum benefit of 20 % after costs is set to be the minimal sales price.
- All sales lower than the above mentioned margin are subject to written approval prior to effective sales.
- All products shall be paid for cash on delivery

Appendix D - Investigations of potential purchasers

- The partner will investigate the potential purchasers to their solvency, and if deemed necessary ask for guarantees prior to production.
- Payments other than cash must be checked with the issuing bankers and confirmed before final delivery.
- In case of non-fulfilment by the customer, the general terms of sales and delivery must be enforced accordingly.

Appendix E - Billing and collecting revenues

Only in case of a joint-venture,

The partner hereby undertakes billing and collecting of revenues.

Copies of original invoices shall be kept at the accounting department of the company.

Once a month copies of all revenues shall be sent by mail to the manufacturer.

Appendix F - Permissions and licenses

Only in case of a joint-venture.

The partner will apply for the necessary permissions for licenses for the import of trailers or pads to the territory.

Further he will take the necessary steps for local approval of the trailers.

The manufacturer will assist the partner from his end with all his possibilities.

Appendix G - Dealers

Only in case of a joint-venture.

In the territory the partner will have the possibility to appoint dealers to increase sales of trailers.

The appointing of dealers is only taken in common decision between partner and manufacturer and to be added as a written notice to the agreement.

The agreement between dealer(s) and partner shall be in the form of a written agreement covering all items.

An English translation of the agreement must be available prior to conclusion of the dealership.

Appendix H - Records and books of account

Only in case of a joint-venture.

The partner agrees to keep true, accurate and complete records and books of account, in accordance with good accounting practice, relative to the activities of the joint-venture company showing any business under this agreement.

During usual business hours all records, books and other related documents (letters, offers etc.) shall be open to examination, inspection and copying by the manufacturer and/or his duly authorized representative(s).

Appendix I - Investments

Only in case of joint-venture.

All investments for the joint-venture company in any form must be taken in common decision between partner and manufacturer and need a written consent between the parties.

Appendix J - Exclusivity

Only in case of joint-venture.

The manufacturer acknowledges the exclusive rights of his products to the joint-venture company for the territory.

Appendix K - Invoice and payment

Only in case of a joint-venture.

The terms of payment between manufacturer and the joint-venture company will be 30 days by irrevocable letter of credit. The currency shall be the German mark (DM).

4. Case study: What happened?

After signing the cooperation agreement with Belco, Thaico proceeded to construct a new production facility near Sampran Industrial Estate. This was 100% financed by themselves and cost a total of US\$4 million, with no tax exemptions granted by the Board of Investment since the production was for the domestic market and the plant was not located in a priority area. Mr. Suchart, the managing director of Thaico, did not approach Mr. Smedt to share in the cost since he had a feeling that Belco might be experiencing financial difficulty and that they were looking to a joint venture for financial support.

The Sampran plant would also be used for building reefer containers and mobile offices as well as trailers. Completion of the facility was planned for June 1994, but construction delays meant it was not finished until October of that year. First production did not start until January 1995. A U.S. engineer was recruited as plant director. It was planned to produce 300 container chassis and 50 harbour trailers annually, along with other specialised types of trailers in an assembly-line production. However, because of the delays in the plant construction, and further delays in the delivery of basic equipment, the facility was limited to "job shop" production. By September 1995, only 100 trailers had been assembled.

During the construction of the factory, there was little communication between Thaico and Belco. Any communication Thaico initiated experienced long delays before an answer would be forthcoming. Then, one month before the completion of the factory, a fax arrived from Mr. Smedt saying that Belco had gone bankrupt and had been taken over by a Belgian group.

Thaico forged ahead on its own. As soon as assembly of the trailers began, several things became evident. First, Belco designed chassis, despite their superior quality, were too expensive for the local market. Replacing the high tensed steel with locally produced steel could bring the production cost down, so that was done, with the Belco designs suitably modified. The result was local content rose to 50% and the production cost was brought down to only 5-10% higher than the average market price.

Secondly, it became evident that Thaico's niche would be in custom-designed products. The original plan of producing standard units assembly-line style was not going to work, because they were not cost-competitive with other producers in that area. High transportation costs also meant that their plan of exporting was not going to succeed. And finally, Mr. Suchart realized that the production of trailers was not as difficult as he had initially feared.

Thaico is financially capable of producing alone. It has substantially adapted Belco's technology to local conditions and can react very flexibly to local needs. It really has no need of Belco's help, but is still willing to pay licensing fees for the unadapted design, if they have an order for it, as happened in June 1995 when Thaico exhibited one of the original prototypes at a trade show. However, they have not been able to get an answer from Belco.

Question: As it stands now, there has been no communication with Belco for many months, but the original agreement has not been officially terminated by either side. Exhibit 4 gives the time frame for the progress of the association between Thaico and Belco. What do you recommend Mr. Suchart do now?

EXHIBIT 4

TIME FRAME

May 1992	Belco sends introductory letter to Thai companies
September 1992	Belco visits Sunap and Thaico
September 1993	Letter of intent signed between Thaico and Belco
October 1993	Prototyps arrive in Thailand
November 1993	Sales and Assembly agreement signed
May 1994	Joint-venture agreement supposed to begin
June 1994	New factory planned to be finished
September 1994	Belco bankrupt
October 1994	New factory actually finished
January 1995	Production started
June 1995	Prototype exhibited at trade show
	No further contact between Belco and Thaico, but agreement never officially terminated

Teaching Notes

1. Introduction

This is a suite of four case studies written about a business venture involving a Thai company and a Belgian company. Case Belco gives the history of the Belgian company up to its search for a joint-venture partner. Case Thaico gives the history of the Thai company to the point where it is contacted by the Belgian company. The third case study tells the story of the joint-venture agreement, with the actual contract appended in full. The last case study explains what happened after the agreement was signed.

The case studies include several aspects of international business, i.e. international marketing aspects like selection of a new export market, international management like selection of the right cooperation strategy, communication aspects between two companies of a completely different culture. The case studies are therefore suited for a multinational audience with various professional and cultural backgrounds: MBA-students majoring in marketing or international business, businessmen and even sociologists.

The instructor can choose to teach the cases from the Belgian perspective, using Cases 1 and 3; from the Thai Perspective, using Cases 2, 3 and 4; or juxtaposing both, in which case the full range of four cases would be used.

From the Belgian viewpoint, the main issues are market research (new markets), market entry strategy, choice of joint venture partner, and structuring a joint venture.

From the Thai point of view, the main issues are market research (new product), building a new business, structuring a joint-venture, and operating a joint-venture.

From both points of view, an important issue is the cultural differences in the way of doing business between the two companies. If utilising both points of view, a useful exercise is to give the Belco case to half the class and the Thaico case to the other half. If you have a 3 hour class, you can divide them into groups, with a team of 3-4 students to each side, to negotiate an agreement. The resulting agreements can be presented, critiqued, and compared to the actual agreement in Case 3. With 90 minute classes, the negotiation would be conducted in one class period, and the third case study discussed in the following. This is preferable, since class time does not have to be devoted to reading the C case, and it gives the students more time to think about the agreement.

A sample lesson plan for the two points of view scenario is given at the end of this note. It is for a 3 hour format which is easily adapted to a 90 minute format. For a 60 minute class, it would need to be spread over three class periods. The first hour would be devoted to conducting the negotiation, curtailed to 30 minutes, and discussing the resulting agreements. The third case study would be given for them to read for the next class. The second class period would be devoted to discussion of the agreement in the third case study, and a comparison with what the students themselves had come up with in the previous class. The third hour would be a wrap up with Case 4, read in class (it is only one page) or given as homework, followed by a lecturette on licensing vs joint-venture, and choice of joint-venture partner.

Detailed teaching notes are available on each case, if instructors wish to use them on a stand alone basis.

2. Are Belco and Thaico a good fit?

Belco's criteria for rejecting Sunap make sense. They are a much larger firm and Belco runs the risk of getting swallowed. Sunap has little need of Belco beyond the technology, since they have everything else. This makes the danger of them becoming a competitor, sooner rather than later, much greater.

Belco's reasons for choosing Thaico, on the other hand, are more suspect, but having rejected Sunap, there is really no choice. The other companies who might have been potential partners have indicated that they are not interested.

In terms of fit, Belco has not thought through what it needs from a partner - only what it wants. They want a partner who is a similar size and age, with a similar concern for quality. These conditions are important, but not sufficient, to tell if a partner is going to be a good fit. You need to look more into the goals, way of doing business, and skills. Your partner should have complementary goals and skills and a compatible way of doing business.

Belco feels Thaico has a more Western way of doing business, but judging by the amount of time Mr. Smedt actually spent with Thaico (Case 3 tells us he made 3 visits of about a week each over the course of a year), it is hard to see how he really develops a deep feel for how Thaico did business. Since Thaico is a family owned business, it would be advisable for Mr. Smedt to have a better idea of the family interests as well as the business interests. From the information in the cases, he did not do this.

Both Belco and Thaico are going to be inexperienced in marketing trailers in Thailand. It's a new market for Belco and a new product area for Thaico. It would be highly advisable for at least one of the partners to have the necessary marketing experience.

Thaico is going to need considerable help at the start in technology and manufacturing procedures. With only 30 employees in Belgium, can Belco afford the time and personnel this start-up phase will require to be successful?

From Thaico's point of view, Belco has the technology they want and the experience in manufacturing trailers that will be helpful to them in their start-up. It will also give them access to high quality components. But they have not thought through how they are going to compete in this market. What are the key success factors? Will Belco give them those factors? Can Belco, in fact, supply what the Asian market wants? Before Thaico can really decide if Belco is a good partner for them, they need to think more carefully about their potential market, and what their strategy should be for approaching it.

3. What the Companies did right and wrong

The tables below outline what Belco and Thaico did right and wrong in trying to set up a business arrangement together.

BELCO	
RIGHT	WRONG
<ol style="list-style-type: none"> 1. Visited SE Asia as part of its research 2. Got government help 3. Did have good criteria for selection of partner but need to add to the list 	<ol style="list-style-type: none"> 1. Wrong basis for its market research 2. Trouble at home: wrong time/motive to go international 3. No international strategy 4. No marketing strategy 5. Not enough time to get to know partner 6. Unclear about what they really want - distribution or JV 7. This leads to writing a very unclear, ambiguous agreement 8. Poor communication channels
THAICO	
RIGHT	WRONG
<ol style="list-style-type: none"> 1. Looked for a partner to enter a new area of business 2. Upheld their end of the bargain 	<ol style="list-style-type: none"> 1. Top management didn't pay enough attention to the deal 2. Didn't investigate Belco 3. Didn't spend time getting to know the partner 4. Didn't research market opportunities carefully (Found they would not be able to export as planned) 5. Allowed Belco sole responsibility for writing the agreement 6. Signed contract without reading it carefully 7. Placed more weight on verbal agreement than written (Causes problems when dealing with cultures that value written over verbal)

4. Some further comments

4.1 Belco's motivation for entering the Asian market

The decline of the European market is not sufficient for starting business outside Europe, particularly if a joint venture is aimed at, because of additional capital needs involved. Belco with a paid-up capital of 10 million BEF was most likely going to face a financial constraint. Moreover, Mr. Smedt's demand for additional own capital remained unanswered.

Mr. Smedt was looking for a new market outside Europe, especially because of the slowdown of the German economy in the beginning of the 90s, following the "boom" after the reunification. The main reason for the decrease in capacity utilisation and in investments in machinery and equipment in Germany was the decrease in German exports (see Table 1). This was immediately felt by the transport equipment sector and therefore also by local and foreign container constructors and trailer builders like Belco. Especially trailer building companies are more sensible to downturns than the truck market as trucks are normally depreciated in 5 years, whereas for trailers the depreciation period is usually 10 to 15 years, resulting in more overcapacity in a slowing economy. Table 2 shows the sales of trucks in selected European countries.

Table 1: Some key economic variables in Western Germany, 1991-1992

	Unit	1991	1992
Fixed Capital Formation	DM Billion	485.0	492.3
Machinery and equipment	DM Billion	239.6	233.1
Construction	DM Billion	245.4	259.1
Orders received (volume)			
By the manufacturing sector	1985=100	122.1	117.8
By the construction sector	1985=100	137.2	138.7
Output			
In the producing sector (excl. constr.)	1985=100	120.2	118.8
In the construction sector	1985=100	127.3	136.4
Imports			
Intra-EC	ECU Billion	171.7	172.8
Machinery and transport equipment	ECU Billion	62.3	61.6

Source: Deutsche Bundesbank (1993:19) and Eurostat (1993)

Table 2: Truck sales in selected European countries, 1992-1994

	1992	1993	1994
Germany	98,641	65,039	56,187
France	34,983	27,781	31,842
UK	29,335	33,349	37,014
Italy	21,569	17,406	16,806
Spain	17,737	11,138	12,742
Total*	246,874	188,559	191,254

* Includes other countries

Source: Financial Times, 13/10/1993

Mr. Smedt is leaving the EU market too soon. Why not looking for market prospects in other European countries like the Netherlands, France, Spain or the UK? Moreover, the removal of internal border in the EU in 1993 increased international transportation in the region. These conclusions are vindicated by a later article in a Flemish newspaper specialised in transportation news (Lloyd, 6 Jan. 1996) describing the situation of the trailer market in Europe since the beginning of the 1990s. From 1991 until 1993, there was a serious slowdown in this market, with, for instance, a decrease in 1993 by 23 %. Since then, however, an upward trend started again: + 16 % in 1994 and an estimated 24 % for 1995. The German market, the biggest European market accounting for 32 % of European sales, would also revive again after its collapse during the last two years.

4.2 Belco's selection of a Thai partner

One of the major risks of superior technology providers like Belco, when entering into a cooperation agreement with a technologically inferior partner, consists of the copying of the technology. For this reason a license agreement can best be concluded instead of a sole distribution agency agreement! Still the issues involved in negotiating and drafting a licensing agreement with developing countries are very complex and in practice it is found that the parties concerned are finally ending up frustrated. Particularly, the many clauses which are intended to protect the licensor against technology-copying and unfair practices from the licensee's part, will often put too much burden on the latter (for a thorough discussion of the problem related to license agreement, see UNCTC, 1987).

The problem can best be solved by "internalising" the technology transfer. A joint-venture is established and the licensing agreement is included in the joint-venture. Moreover, problems of record

maintenance, warranties regarding the licensee's performance of quality control, the use of locally improved technology, training needs of personnel, etc. are better coped within a joint venture.

Sunap is a potential licensee, but as a joint-venture partner it is too large compared to Belco. The course to establish a joint-venture was actually taken by Belco. It had a good point in choosing Thaico as a joint-venture partner which is a relatively small company and relatively "Western" in doing business.

4.3 Thaico's selection of a partner

Taking into account the many complaints about the quality of locally built containers, Thaico is probably right to look for a partner who can supply higher quality. Belco happened to be on the scene at the right moment, but it is not clear whether Belco is the right partner for Thaico. Belco is one year younger than Thaico, with a relatively low capital. Financial needs of establishing a joint-venture are huge for Belco. In order to have good steel supply, Thaico should prospect the ASEAN countries actively. It is not clear if the Belco trailers are suited for the local Thai or Asian market. The price of the Belco trailer is about 50 to 70 % more expensive than locally made trailers. This is to some extent compensated by a longer lifetime of the trailers of 30 to 40 %, the 10-15% lower weight of the high-tensed steel used and the higher transport capacity. It is likely that the quality and safety standards of Belco trailers are too high for the local Thai or Asian markets. Thaico addressed this problem by using local steel and even second-hand parts, if customers request, while still keeping the superior Belco design. Meanwhile, it is advisable for Thaico to take the time and test the marketability of the Belco-trailers. Any decision for establishing a joint-venture would be premature.

4.4 The business agreement between Belco and Thaico

The agreement to establish a joint venture seems to be a "fuite en avant" (escape forward) for Belco. It is completely unclear how Belco was going to secure the 50 million THB (or about 2 million USD) needed to take up its share in the joint-venture, taking into account that its own paid-up capital amounts to hardly 10 million BEF (or about 340,000 USD).

The agreement for sales and assembly points to the value of Belco's know-how and technology, but it is not providing any amount or valuation method for that matter. Details for the establishment of the joint-venture were never discussed or written down.

The sales and assembly agreement is also very vague concerning technology transfer and technology protection. This is due to the perception of Mr. Smedt (rightly or wrongly) of the Thai methods of doing business, based on personal contacts, which could be jeopardised by a detailed writing-up of the consensus reached.

4.5 Business strategies

Pending the establishment of the joint venture, Belco and Thaico concluded an agreement for sales and assembly of trailers and semi-trailers. As we saw above, the establishment of a joint venture was at risk of not materialising however (high capital needed for Belco, valuation of the license as an asset, etc.), in which case the sales and assembly agreement would remain the only legal bond between the parties. A quick inspection of the agreement shows that it contains only minimal provisions (e.g. no "improvements clause" securing license rights to improvements or adaptations made by the licensor). Hence, Thaico could easily develop its own design and terminate the contract.

4.6 Should the joint-venture be established?

The basic question is whether the parties should pursue the original aim of establishing a joint-venture. Three arguments can be developed against this. Firstly, Thaico is producing alone and does not need Belco anymore. Secondly, Thaico is now producing lowerquality trailers for the Thai market, instead of the higher-quality Belco trailers for the markets of South-East Asia. In doing so, Thaico's strategies and aims (probably developed by a learning-by-doing process) differ significantly from Belco's. Thirdly, the financial situation of Belco is not sufficiently stable. Nor will Belco be in a position to take up its share in the joint-venture, taking into account that considerable differences of opinion will develop between the parties regarding the valuation of Belco's technology as an asset, which is presently hardly needed, if at all, by Thaico.

TIMEFRAME FOR 3 HOUR CLASS

CIMTIME	TIME	ACTIVITY
	15	Introduction Are belco and Thaico a good fit? Why? Belco's opinion Thaico's opinion What criteria are you using?
55	40	Thaico and Belco begin negotiations. what kind of agreement should they come up with? From groups of 6: 3 from belco and 3 from thaico write your agreement on O/H and be prepared to present to the class. Agreement should be as detailed as possible, given the information you have from the cases.
65	10	Report back 2 or 3 groups present their agreements
85	20	Discuss and critique the agreements
95	10	BREAK
110	15	Hand out C Case to read*
140	30	Discuss: 1. Opinion of agreement (compare with what the class came up with) 2. Prognosis for future 3. Advise you would give
155	15	Hand out case D. Tell them what happened. ** Discuss what both sides did right and wrong and the different ways both companies approached the agreement
175	20	Wrap-up lecturette on pros and cons of licensing vs joint ventures, and choosing a joint venture partner

* Material for the discussion questions for Case C be found in the teaching notes for that case.

** Material for the discussion questions for Case D be found in the teaching notes for that case.

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ABOUT THE AUTHORS

- Dr. L. Cuyvers is Professor of International Business at the Faculty of Applied Economics, University of Antwerp (RUCA) and Director of the Centre for ASEAN Studies (CAS), Middelheimlaan 1, 2020 Antwerp, Belgium, Tel. (32-3) 218.07.80, Fax (32-3) 218.06.52, internet: lcuyvers@ruca.ua.ac.be.
- Dr. P. De Lombaerde is Director of the MBA-programme at CESA, Bogota, Colombia, Fax (571) 288.59.74.
- Mrs. B. Dewulf was formerly researcher of International Business at NIDA, Business School, Bangkok 10240, Thailand.
- Dr. O. Leelakuithanit is Assistant Professor in Business Administration at NIDA, Business School, Bangkok 10240, Thailand, Tel. (662) 377.74.00-19, ext. 422, Fax (662) 374.32.82, internet: orose@nida.nida.ac.th
- Dr. D. Van den Bulcke is Professor of International Management at the College for Developing Economies and Director of the Centre for International Management and Development (CIMDA), University of Antwerp (RUCA), Middelheimlaan 1, 2020 Antwerp, Belgium, Tel. (32-3) 218.06.67, Fax (32-3) 218.06.66, internet: dvdb@ruca.ua.ac.be.
- Dr. L. Wright is Director of the Centre for Canada-Asia Business Relations, School of Business, Queen's University, Kingston Ontario, Canada K7L3N6.