TRADE

EARLY BELT AND ROAD INVESTORS TELL OF REWARDS

But significant risks such as political instability and foreign exchange fluctuations described as part of doing business in area touted by Beijing

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Political and foreign exchange risks are among the top challenges pioneering Hong Kong investors have faced in markets along China's ambitious trade strategy, but opportunities exist such as lower cost assets and growing consumption, according to businessmen familiar with those countries.

Touted by President Xi Jinping (習近平), the "Belt and Road Initiative" aims to open up trade in the land-based Silk Road economic belt in the north, and the maritime Silk Road in the south.

But experience counts when it comes to investing in these largely unfamiliar markets, according to several businessmen with substantial experience in the region.

Jonathan Choi Koon-shum, chairman of conglomerate Sunwah Group, is particularly familiar with the maritime Silk Road, as his family-owned firm has operated seafood, coffee and real estate businesses in Vietnam for decades, while also investing in Myanmar, Cambodia, and Indonesia.

Political risks usually include policy and legal changes, and occasionally, a change of government. Choi, who is also chairman of the Chinese General Chamber of Commerce in the city, recalled his company having to "start all over again" in Vietnam after the country's civil war ended in 1975.

"Fortunately, we were sincere in building a good relationship with the new government and our business was able to continue," he said. "Now, doing business in Vietnam is much better."

Choi recalled trading gold as currency in some countries in the region where the US dollar was not accepted. "Currencies can depreciate very quickly, and getting money out of the countries can also be a challenge," he said.

The concern over currency fluctuations was shared by Joseph Chan, chairman of Kaisun Energy.

Jonathan Choi Koon-shum chairs Sunwah Group. Photo: Dickson Lee

His firm is invested in four coal mines in Tajikistan totalling US$80 million in value.

"After the depreciation of the Russian rouble a few years ago, Tajikistan's currency fell 60 per cent," he said. "So we decided to slow everything down."

Chan cited a lack of an established transportation system as another difficulty. "Until the railway and roads were completed, we had to postpone our plan to export the coal and instead sell it to the domestic market."

Business culture can also be very different, said Ben Simpfendorfer, founder and CEO of consulting firm Silk Road Associates.

"In the Middle East, it's not enough to simply rely on email or cold calls. Relationships are key to business," he said. "It's critical to make regular visits to the region to build your networks."

Simpfendorfer, author of the book *The New Silk Road*, described the risks of working on the mainland as comparable to those of working in the Middle East and "many parts of the world".

Despite the challenges, these Belt and Road veterans said there were plenty of virtues to doing business in the region.

For starters, quality assets could be available at attractive prices, Chan said, recalling his investment in Tajikistan. "We bought the coal mines when they were marketed in Hong Kong for about US$65 million. We think it was value for money. Tajikistan is near Xinjiang. We could see there was a lot of demand for coal as it was building a lot of railways."

Mainland Headwear managing director Pauline Ngan Po-ling noted labour costs in Bangladesh, where the listed cap-making company had set up a manufacturing base, were "around US$100 to US$120" per person per month – much lower than the 6,000 yuan rate in Shenzhen where it also had operations.

As the Belt and Road countries gain affluence, huge domestic markets would follow, Simpfendorfer said. "The branded consumer goods sector is especially promising. It benefits from rising affluence and online platforms that allow brand owners to tap demand in more than 500 cities with populations greater than half a million."