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Proceed with caution in exploring alternative ASEAN market

The Sino-US trade war is a controversial topic of late. Although the current scale of the trade war is difficult to estimate at present, interests in relocating manufacturing facilities from the Pearl River Delta (PRD) to ASEAN countries – especially those in Indo-China – are rising.

I wish to share some insights on the topic, especially for all SMEs.

First of all, it is extremely important to select the right country and the right location for trading. The investment landscape and actual situation are very different from what we experienced in the late 70's to early 80's when we moved our factories from Hong Kong to Shenzhen, Dongguan, and Guangzhou. Although collectively called the ASEAN, its member economies are extremely diverse and complex in their political and socio-economical systems, cultures, traditions, stages of development, governing ideologies, races, religions, etc. Therefore, it is important to carry out careful and thorough studies instead of relying only on studies from consultants before making significant investment decisions.

Moreover, I also wish to stress that investment in these countries requires full commitment from senior management and business owners. It is essential for them to directly oversee these projects, and the operations of the factories.

Furthermore, you should not assume it will simply be plain sailing afterwards. Renowned consultants could be instrumental in any project's architecture, as well as its risk identification, profiling, and management. However, if you cannot afford their services, then you have to learn from friends who have actual investments and operations in the PRD.

In the paragraphs that follow, I must also cite some of the actual cases that I learnt from my associates.

Although not all of them have come from direct experience, these (almost) first-hand experiences should have high-degree of relevancy for potential investors:

A textile manufacturer concluded an investment contract with a local government, but a year later, the manufacturer is still unable to obtain the Environment Permit needed for operations
A garment manufacturer, according to the region's local laws, allows his workers to establish a worker union. The result is that he has to reserve a whole month every year for disruption of operations when his workers take up industrial actions. Whenever disputes arise, the local authorities are seldom on the the manufacturer's side

Another manufacturer faces immense difficulties in opening bank accounts, remitting foreign currencies, or even filing of account/tax statements

Electricity supply often is in shortage. As a result, manufacturers may have to generate electricity themselves; this

can raise a whole host of safety and environmental issues

Integrated supply chains in most industries simply do not exist. In many cases, almost all raw materials, parts, accessories, etc. have to be imported. Shipping arrangements, custom clearance, and costs can often prove to be troublesome

Manufacturers may be required to move their factories more frequently than planned, as the lands for their factories are needed for other purposes

These are just some examples of the challenges that investors might have to face in the near future. One may say that these challenges are nothing new, as manufacturers might have gone through similar incidents in the Pearl River Delta.

An associate said that these markets are for the young, energetic and vigilant people. There is perhaps some truth in this statement.

While I mention that it is important for management to establish a firm grip of their project in its initial stages, a well-planned localisation policy is often a critical factor of success, particularly for medium and long-term development. Finding and keeping local talents and good management staff should be on top of every manager's agenda as well.

Considering the danger of high hidden costs, one has to build one's business projection within high margins, and unless such margins are carefully worked out, it is not advisable to proceed with the projects.

In addition, you cannot expect the productivity and the speed of learning of the workers in the ASEAN countries match the workers on the Mainland; this is because culture and the work ethics are different in these areas.

In other words, ASEAN factories are far more suited to handling those less time sensitive, less complex, and more standardised methods of production.

If you are interested in exploring these investment opportunities, there are assistances that you can utilise to your benefit. For example, the SAR government established the Jakarta Economic & Trade Office (ETO) three years ago, and the Bangkok ETO will soon come to fruition. The office network of the Hong Kong Trade Development Council in the ASEAN region is also quite extensive, and they are certainly around to assist in such matters. In addition to this, the government has allocated another HK$10 billion to the BUD Fund to help Hong Kong businesses explore the ASEAN market; there is also the SME Export Marketing Fund and SME Development Fund to consider. You can make use of these funds to participate in trade fairs, trade missions, marketing campaigns, and even extended stays for meeting with business partners and stakeholders, employing consultants to conduct studies, hiring of directly-related staff and purchasing of machinery and equipment.

Although I have written of many opportunities and silver linings in this looming trade war, it doesn't mean that it is due to wrap up any time soon. Therefore, we must all observe caution in trade and logistics matters, and make smart preparations to weather the oncoming trade storm that is sure to come.