Building on trust

By: Loh Hui Yin

The decision to develop a huge Shanghai site in 1996 based on a 4-page contract was a calculated risk for HK tycoon Vincent Lo. But it paid off when the Xintiandi entertainment hub became the talk of the town. LOH HUI YIN finds out how long-standing friendships can be a big help.

VINCENT Lo Hong-sui's friends thought he was crazy when he secured the rights to develop a huge plot of land in Shanghai back in 1996 - other Hong Kong developers had been hit by nerves and slowed down their investments on the mainland.

His bankers must have thought so too, for they approved a loan of only US$45 million, less than 30 per cent of the project cost. And it had taken the banks a year to approve the loan to Mr Lo, who is chairman of Hong Kong-based Shui On Holdings.

He doesn't blame his friends and bankers for their disquiet about his investment. Not only was the investment climate beginning to unravel by then - the East Asian financial crisis was looming - the mega project's contract ran on to only four pages. It was more like heads of agreement, Mr Lo acknowledged in an interview with Raffles Conversation.

'It might not be suitable for a lot of major multi-national corporations. Fortunately, I own my own company so I can take the decision - and some might say - take the risks,' said Mr Lo. In the event, Mr Lo is having the last laugh. It is now the highly successful Xintiandi entertainment hub, which other Chinese cities want Mr Lo to replicate.

After much persuasion by the Hangzhou mayor, Mr Lo did replicate it - the Xi Hu Tiandi which opened on May 1, this year. A scenic city, Hangzhou is the provincial capital of Zhejiang province.

But it is the original, the Xintiandi (which means New Heaven and Earth) in downtown Shanghai, that it is the crowd-puller. World leaders, including Singapore's Prime Minister, well-off locals, expatriates and free-spending tourists are among the visitors to Xintiandi.

'All tour groups must go to Xintiandi,' quipped Mr Lo.

It comprises a cluster of pubs, restaurants and shops built on the site of old houses dating back to the 19th and 20th century in downtown Shanghai. Some of the old houses, built in the shikumen (stone gate) style, were conserved by Shui On group, saving some of Shanghai's precious heritage as the city undergoes rapid development.

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The flagship of Shui On group in Shanghai, Xintiandi takes up only 6 per cent of the 52-hectare site off fashionable Huai Hai Zhong Lu. The rest of the land is being developed into residential and office towers - Shui On is now marketing some of the completed space, to good response, added Mr Lo.

All in, Shui On group has invested close to 10 billion renminbi (S$2.1 billion) into property projects in Shanghai - mainly Xintiandi and the Rainbow City residential project.

While Xintiandi has been wildly successful in drawing visitors, it is less so on bottomline.

Seeing the bigger picture

'I'm making money from rental (from Xintiandi) but I have to confess the returns on my investment are not attractive; but we have 52 hectares all around, which are being developed into office and residential. They offer more attractive returns.

'Xintiandi is like an appetiser, right? It has created a name and people recognise that we would be a capable developer, in our ability to deliver quality,' said Mr Lo.

Xintiandi commands not only a superb location, but also holds historical significance for the Chinese. It is where the Chinese Communist Party's first met in 1921 - a museum adjacent to Xintiandi is dedicated to it.

(Mr Lo founded his company in 1971 with a loan of HK$100,000 (S$22,100) from his father, Lo Ying-shek. Shui On is involved in property development and the hotel trade, mainly in Hong Kong and China.)

Observers have always been intrigued on how Mr Lo was able to snag such an invaluable site. Why did he venture into Shanghai when other Hong Kong developers were beating a retreat? Wasn't he worried about subsequent contractual difficulties with his Chinese partner after he signed a simple four-page contract to develop such a big site?

What his doubting friends and bankers didn't reckon with was Mr Lo's formidable network of contacts in Shanghai. They were certainly not developed overnight - but cultivated assiduously over 20 long years. Or put another way, he had (and still has) good guanxi.

And sometimes, his help is rendered with little thought of immediate returns, Mr Lo emphasised. Like the time he bailed out his Chinese partner in the hotel joint venture when it faced financial difficulties in the 1980s, after the Tiananmen incident.

'I helped them during that period, and they always remembered,' he observed, a characteristic which Singapore businessmen will attest to. Therein lies the nub of his strength in China. Plus his ability to accurately size up the opportunities there, even when it was shunned by his fellow Hong Kong businessmen.

In a matter-of-fact tone, the dapper businessman noted that many in the current Shanghai leadership were members of the Communist Youth League, whom he has known for the past two decades - when he started his joint venture hotel investment there.

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'A lot of those young people have risen to senior positions, including the new mayor of Shanghai, Han Zheng. He was the chairman of our hotel in the 1980s so we have known each other for 17 years.'

Huang Qifan, executive vice-mayor of the western city of Chongqing, is an old' friend - not a mere friend, Mr Lo was quick to point out. Mr Huang was formerly with the Shanghai municipal government responsible for drawing up the development strategy for Pudong.

The Xintiandi site, recalled Mr Lo, was offered to him as a result of his close working relationship with the Shanghai government.

For his contributions, Mr Lo was appointed vice-chairman of the All-China Federation of Industry and Commerce, last year.

Xintiandi's four-page contract notwithstanding, the mega-project has endured and it can be attributed to the great mutual trust and respect that Mr Lo and his Chinese partners have for each other.

He explained that it would have been impossible to cover every eventuality in such a massive development all on paper, in China's business environment in 1996, when rules and regulations were more opaque.

'How are you going to try and decide when to build everything when the market was so bad, right? If you try to cover that whole development, I think today we probably would be debating and arguing to no end.'

As an aside, he does not think that it would be in Singaporeans' nature and culture to seal a major investment on the basis of a flimsy four-page contract.

Mr Lo, 55, was drawn to Shanghai because of its history as an international city, a role he felt it will no doubt play again in China's economic development.

But does he not think that property prices in Shanghai have gone out of whack and a property bubble could be forming, as some observers have been warning.

Here, Mr Lo took the view that over-buoyant market conditions, rather than the absolute level of pricing, might push prices up too rapidly. Which would then trigger off a downward adjustment.

'Buying interest is so strong now and the buoyancy might push the prices up significantly and that would create more of an opportunity for a pricking of the bubble,' he said.

For instance, some 2,800 potential buyers had queued up for three days, paying Shui On a deposit of 30,000 renminbi just to have the right to ballot for a flat in its Rainbow City project in Shanghai.

Although an ardent supporter of Shanghai's development, Mr Lo maintained there is definitely scope for Shanghai and Hong Kong to co-exist as financial centres for China. Their rivalry is a perennial discussion among Hongkongers who fear losing out to upstart Shanghai.

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In the spirit of cooperation

Instead of viewing the issue strictly as Shanghai versus Hong Kong, he preferred to see it thus: 'Why can't we look at it as Shanghai, together with Hong Kong?'

But he also acknowledged that there will always be competition between the two, despite their recent agreement to cooperate in several areas, including tourism, investment, health, culture and financial services.

Their new-found cooperation builds on the higher-level Closer Economic Partnership Arrangement (Cepa) between China and its Special Administrative Region of Hong Kong. A trade pact, Cepa grants privileges to Hong Kong companies which sell goods and services on the mainland. Professionals also benefit from Cepa.

Foreign investors, he argued, would feel more comfortable in China when they have access to Hong Kong professionals, like lawyers and accountants who are trained to Western standards and now allowed to work on the mainland, as a result of Cepa.

Conversely, the flow of mainland professionals - and hopefully investments - into the territory would surely provide a much-needed fillip to Hong Kong's economy, he pointed out.

The prolonged downturn in Hong Kong's economy over the last few years had brought about a sea change in Hongkongers' attitude towards the mainland.
'Our attitude today is: My god, we are not almighty, we need to work with people. If we didn't have the mainland, Hong Kong would have gone down the tubes.' '

A sobering thought indeed, considering how Hongkongers used to hold a superior attitude towards their mainland compatriots.

'We need to understand that things do change and your advantages or strengths might not be there forever. I think it's a good change for Hong Kong.'

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Moving in on the Chinese market

By: Loh Hui Yin

SELL to the domestic market if you are investing in China because there's lots of pent-up demand there, said Vincent Lo, a 20-year veteran of the market of 1.2-billion people.

So the Hong Kong tycoon, putting his money where his mouth is, has invested in industries or services which cater to the Chinese - 'all my investments cater to the local market'.

Such as his investments in cement plants since 1995, which has earned him the monicker of cement king of Chongqing city.

'Chongqing is the gateway to the western region. I see it as the Chicago of China,' said Mr Lo, referring to the American city which is the regional hub for the American mid-west.

Mr Lo, chairman of Shui On Holdings, controls 70 per cent of the high-grade cement market in Chongqing, giving it leverage over the massive building programme that is taking place to urbanise the city. With a huge population of 31 million, Chongqing is one of the biggest cities in China.

'The Chinese government needs to step up its development to close the gap between the inland region and the coastal provinces.

'It is planning to invest US$200 billion in the next 10 years into Chongqing to build it into an international centre. Huge money. They say it's equivalent to the amount that they have put into Pudong in the past 10 years.'

Mr Lo, of course, has friends in Chongqing. One of them is Huang Qifan, formerly from Shanghai. 'He asked me to go to Chongqing. They (government officials) recognise my ability to deliver and I'm not just looking at my self-interest all the time. I do want to try and make a contribution and hopefully, I am a bit more far-sighted than other developers.'

The developer is also eyeing the property market. In August, Shui On signed an agreement to develop the 10 billion renminbi (S$2.1 billion) Hualongqiao Redevelopment Centre which will be a focal point for supporting and servicing Chongqing's manufacturing industry.

Taking his strategy of selling to the Chinese consumer to a broader canvas, Mr Lo is a strong supporter of the Yangtze Delta, one of the booming regions in China. The other is the Pearl River Delta (PRD) in the south, next to Hong Kong. Foreign investors often find themselves asking which of the two booming regions, the Yangtze or PRD, should they locate their investments in.

For Mr Lo, there's no doubt where he would put his money: the Yangtze whose dragon head' is Shanghai, China's biggest commercial city. His fellow businessman Victor Fung, whose family controls Hong Kong-listed trading company Li & Fung, speaks up for the PRD.

The PRD, observed Mr Lo, has developed extremely well over into a major manufacturing base in the past 20 years. Through its proximity to Hong Kong, the PRD is much more nimble than the Yangtze Delta and therefore more connected to global market conditions, producing new products in a short time frame.

But it has its drawbacks, he pointed out. 'The Pearl River Delta has only 40 million people, whereas if you look at the Yangtze Basin, it's 80 million people. The area is more than double that of the Pearl River Delta - and has got a much stronger technology base, skilled labour and cheaper costs.'

He adds: 'I'm bullish about the Yangtze basin because it is a much bigger area and has a lot of untapped market, and a lot of resources.' Hong Kong, however, should be about servicing the whole of China, not just the PRD. Some Hong Kongers, including Dr Fung, has been vocal in establishing stronger linkages between PRD and the territory.

'The opportunities are there and they (China) want us to be involved with them. Why don't we? That's what I'm doing for my own business.'

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