Chinese see USA as land of opportunity

Newly acquired assets also shore up businesses at home

One in an occasional series

By KATHERINE YUNG
Staff Writer

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CORPUS CHRISTI — A sprawling complex of pipes, tanks and evaporators erected in the 1950s, the Sherwin Alumina refinery seems an unlikely target for Chinese investment.

North America's second-largest alumina plant is struggling to absorb persistently high natural gas prices, operates

THE CHINA CONNECTION

China, Texas and the economy

with a unionized workforce and competes against a host of lower-cost manufacturers around the world.

But China's largest state-owned metals group, China Minmetals Corp., bought a 51 percent stake in the refinery last year. It controls half the seats on the plant's board of directors, including the chairmanship.

"China is desperately short of aluminum," said Sherwin Alumina chief executive Peter Bailey, explaining the Chinese company's interest in the refinery, which produces the key ingredient in commercial aluminum.

RAYMOND GRAY/Special Contributor

China Minmetals Corp. bought a 51 percent stake in the Sherwin Alumina refinery in Corpus Christi because of an aluminum shortage back home.

The acquisition represents one of a growing number of Chinese investments in the United States that experts predict will alter the nation's business landscape in coming years.

The investments are coming at a time of growing protectionist sentiments, sparked by record trade deficits and millions of lost manufacturing jobs. Yet they are proving that China's economic rise can bring benefits on both sides of the Pacific.

"We're very dependent on foreign investment," said Adlai Stevenson III, the former Illinois senator who is chairman of the Midwest U.S. China Association, which promotes Chinese investment in the heartland.

"Instead of just buying Treasury securities, the Chinese are buying assets," he said.

Leading Chinese companies, such as motorcycle maker Chongqing Lifan Group and telecom giant ZTE Corp., have set up sales offices, distribution centers and research facilities in Dallas and other U.S. cities.

Some are acquiring American businesses to gain distribution networks or familiar brand names.

The newcomers have ventured beyond merely purchasing distressed or bankrupt companies and shipping the factory equipment to China. In many cases, they're injecting new life into U.S. businesses by providing capital.

To date, the largest and most prominent acquisition has been Lenovo Group's $1.25 billion purchase of International Business Machines Corp.'s personal computer business.

But Haier Group, China's largest appliance maker, has teamed up with two buyout firms in a $1.3 billion bid for struggling Maytag Corp. And the China National Offshore Oil Co. Ltd. wants to buy Unocal Corp. for $18.5 billion.

In much smaller deals, Chinese companies have snapped up everything from struggling auto suppliers to software firms. They have focused on meeting business needs, not on investment vehicles such as trophy office buildings and golf courses.

"This is much more regulated, much more strategic" than the wave of Japanese spending in the U.S. in the late 1980s and early 1990s, Mr. Stevenson said.

Like the Japanese a generation ago, today's Chinese investors stir some commercial concerns. Their currency, kept artificially low in value by Beijing, gives China an edge in the U.S., for example.

But unlike Japan, China also raises deep-seated geopolitical fears in Washington.

Although its communist government and drive for more global influence may not loom large in the buying of appliance manufacturers or alumina makers, the bid for Unocal heated up the long-simmering debate: Is China a trustworthy trading partner, worrisome rival or some mix of the two?

Growing interest

Right now, Chinese investment remains a blip in the $12 trillion-plus U.S. economy. At the end of 2004, more than 1,000 Chinese companies had made a total of $560 million in direct investment in the U.S., according to the Chinese Embassy in Washington.

But this investment is expected to surge as a rising number of Chinese corporations, hungry for sales growth, gain the financial wherewithal to enter Western markets.

"The U.S. is the largest market in the world for China," said Michael Chang, director of the Dallas office for the China Council for the Promotion of International Trade.

Many Chinese companies prefer to sell abroad because of fierce competition at home and difficulties in getting paid quickly, he said.

In addition, the Chinese government is encouraging direct overseas investment, which totaled $3.6 billion last year, up 27 percent from 2003 levels.

China's voracious appetite for iron ore, copper and other metals is spurring much of the capital outflow.

A little more than half of last year's overseas investment poured into the mining industry, primarily in Latin America and Indonesia.

Only 1.7 percent, or $62 million, flowed into North America, mainly the U.S.

But those figures are likely to increase, experts say, because many Chinese consumer and technology companies view the U.S. as a critical source of growth.

"The U.S. is a market you cannot miss," said John Yu, senior vice president of research and development for ZTE USA Inc., the American division of the big Chinese telecom equipment maker. "The purchasing power of the U.S. is still very high."

Teaming up with the Chinese seems like a novel concept to many Americans, but it's a way of life for the 700 employees at the Sherwin Alumina refinery, across the bay from Corpus Christi.

China Minmetals hasn't made any significant changes at the plant, which was owned for nearly half a century by Reynolds Metals Co. And the Chinese conglomerate has sent over only a single representative, who's been involved in logistics, sales and high-level management issues.

Language hasn't been a problem because China Minmetals executives speak English. But Sherwin's board meetings have turned into trans-Pacific conference calls. And Mr. Bailey, who runs the refinery and is also one of its inves-

COMING TO AMERICA

Chinese companies' multibillion-dollar bids for Maytag and Unocal have been making headlines. Other prominent Chinese acquisitions that have closed in recent years:

Date	Chinese acquirer	Acquisition target	Business	Deal value
Oct. 11, 2002	Dalian Machine Tool Group	Ingersoll Production Systems	Auto transfer lines	NA
April 11, 2003	ASIMCO Technologies	Federal-Mogul Corp. unit	Camshafts	$28 million
June 6, 2003	China International Marine Containers Ltd.	HPA Monon Corp.	Highway trailers	$4.5 million
June 18, 2003	Dalian Machine Tool Group	Ingersoll CM Systems LLC	Crankshaft machining	$3 million
Sept. 9, 2003	CDC Corp.	Industri-Matematik International	Software	$25 million
July 19, 2004	YaSheng Group	Nicholas Investment Co.	Investment firm	NA
Aug. 2, 2004	Sinopec International	First International Oil	Oil	$150 million
Aug. 27, 2004	CDC Corp.	Ross Systems	Software	$65.7 million
May 1, 2005	Lenovo Group Ltd.	IBM's PC business	Computers	$1.25 billion

SOURCES: *Dallas Morning News* research; Thomson Financial tors, now finds himself answering more late-night telephone calls.

But underlying these inconveniences exists the potential for a big payoff. If shipping prices fall, the refinery could benefit from increased exports of alumina to China.

"It's been a comfortable situation," said Mr. Bailey, who travels to Beijing twice a year. "The Chinese are good business people, and they fit very well into the global economy."

Mastering marketing

Aided by low-cost manufacturing operations at home, many Chinese companies see catering to American households as a natural avenue for expansion. But they often run into marketing hurdles.

That's the case for American Lifan Industry, the U.S. unit of the Chongqing Lifan Group, China's largest motorcycle manufacturer.

In a 30,000-square-foot warehouse in northeast Dallas, eight American Lifan employees spend their days trying to sign up motorcycle dealers around the country, one of the last untapped markets for Chongqing.

American Lifan represents just one of several Chinese motorcycle companies now selling their bikes to U.S. consumers. Three years after entering the market, it boasts more than 200 dealers, mostly in the South, including three in the Dallas suburbs.

Its motorcycles, pocket bikes, scooters and all-terrain vehicles range in price from $800 to $2,500. Last year, the company sold 3,000 of them, generating $2 million in sales, said Peter Xie, its executive manager.

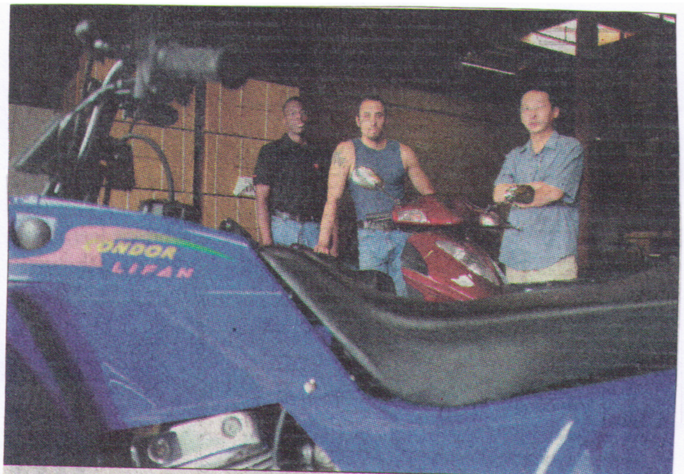
"The American market is the toughest market," he said, noting the demand for frequent model changes.

Getting buyers familiar with the brand poses the biggest challenge, said Damon Williams, American Lifan's marketing and sales manager. He quickly discovered that most Americans don't know how to pronounce "Lifan" (*lee-fan*).

Experts say the lack of brand awareness, often combined with little U.S. marketing expertise, is the biggest obstacle for Chinese companies trying to appeal to sophisticated American consumers.

"They have no background in market economies," said Donald Straszheim, an economist in Santa Monica, Calif., who specializes in China. "Marketing, sales, hype and distribution — all of these things are really quite foreign" to them.

Other difficulties abound. ZTE, China's second-largest telecom equipment company, is pushing modification of its base station controllers, modems and other products to meet U.S. standards.



DARNELL RENEE/Special Contributor

From left: Damon Williams, Troy Rocha and Peter Xie are building the Lifan motorcycle brand in the U.S.

Undeterred

But that isn't deterring the Shenzhen-based company, which recently formed a U.S. sales team.

"The international market is growing," said Lin Ma, ZTE's vice president of North American sales and marketing. "ZTE is really growing up to be a global company."

This spring, the firm moved into a bigger office in Richardson's Telecom Corridor. It serves as ZTE's U.S. headquarters, staffed by about 20 employees.

ZTE isn't the only Chinese telecom company vying for a piece of the U.S. market.

Its larger rival, FutureWei, owned by China's Huawei Technologies, set up its U.S. headquarters in Plano. And China Telecom Corp., which sells voice and data services, operates sales offices in Herndon, Va.; Los Angeles; and San Francisco.

So far, ZTE and most Chinese companies have kept a low U.S. profile. They've been largely overshadowed by the headlines garnered by Chery Automobile Co., maker of China's bestselling car, the QQ.

Chery vs. Chevy

Chery aims to sell 250,000 of its vehicles in the United States in 2007, using a distribution company established by Malcolm Bricklin, who brought Subaru and the infamous Yugo to these shores.

Mr. Bricklin's company, Visionary Vehicles, is recruiting dealers nationwide. It wants to compete in the midprice segment, offering 30 percent to 40 percent savings over comparable models, said Paul Lambert, Visionary's president of North American marketing.

"Chery has been anointed to be the first major brand" of Chinese autos, he said. "It has the backing and support of both the province and the Chinese government like I have never seen."

Chery may not be the only Chinese import vehicle. In Capitola, Calif., south of San Jose, auto dealer John Mandella has received one Chinese car for his showroom and said several more are on their way, though sales haven't yet begun.

He's part of a group of dealers assembled by Arizona businessman David Shelburg to sell vehicles from three other Chinese automakers.

Unlike Visionary, they aren't discussing their plans.

For Visionary, generating publicity is a key part of its strategy for gaining American buyers' confidence.

"The Chinese know they only have one opening night," Mr. Lambert said.