



Posted on Sun, Apr. 11, 2004

Dallas financier seeks to gain from China's boom

DAVID KOENIG
Associated Press

DALLAS - Dallas financier Timothy P. Halter says he felt like a time traveler when he made his first trip to Shanghai last year to investigate whether to invest in a Chinese auto-parts company.

New office buildings and factories were going up everywhere. Taking in a 360-degree view of one intersection, he counted 10 building cranes at work. The hubbub was deafening.

"It's like watching the Industrial Revolution happen right before your eyes," Halter said.

Halter decided that China was the best place in the world for investments. Now he and his partners are moving to start a mutual fund of Chinese companies.

In October, Halter Financial Group Inc. began an index of 34 Chinese companies whose shares or American depository receipts are traded on U.S. markets. Called the USX China Index, it is printed in some Asian newspapers. The index also includes a Korean company that gets most of its sales from China.

Investors who bought stock in Chinese companies certainly hit the jackpot last year. The USX China Index jumped 104 percent for the year and a Morgan Stanley China index rose 88 percent - faster than the broad U.S. market indices, including the Dow Jones Industrial Average, which gained 25 percent, and the Nasdaq Stock Market, up 50 percent.

The risks and volatility of investing in Chinese companies have been on display in 2004, however. In the first quarter, the China index fell 7 percent compared to the Dow and Nasdaq, which were nearly flat, and the Standard & Poor's 500, which gained 2 percent.

To foreign companies and investors, the appeal of operating in China is as obvious as its 1.3 billion population, which promises huge markets for all kinds of consumer and manufacturing goods. China's economy grew 9 percent last year, triple the gain in the larger U.S. economy, and optimists see no end to the opportunities in the Asian giant.

Chinese companies have discovered the American capital markets to help finance their rapid growth. They are lining up to sell initial public offerings of stock in the United States.

China Life Insurance Co. Ltd. was the largest IPO last year, raising \$3.5 billion when it hit the market in December. Chinese Construction Bank is expected to raise about \$5 billion and be among 2004's biggest IPOs.

After a meteoric rise from \$22 to \$35.60 on the New York Stock Exchange, China Life's U.S.-traded shares have since given back nearly all of their gains. The shares lost more than 5 percent of their value Thursday after a U.S. law firm filed a class-action lawsuit, claiming the company defrauded investors of \$652 million.

Experts on the Chinese market say that China Life's story is a cautionary tale for U.S. investors, demonstrating that Chinese stocks are volatile and may be heading for a correction.

China's economy may also be vulnerable to shocks such as a banking crisis or sharp inflation. The Chinese central bank has acknowledged the threats posed by inflation and overcapacity and excessive investment in some industries.

Usha C.V. Haley, a management professor at the University of New Haven, said investors can't hope to unravel the many mysteries about Chinese companies.

"It's an informational black hole. The information that is easy to get is often of virtually no value," she said. "Government statistics conform to policy projections rather than provide genuine information."

Haley said the Chinese and foreign CEOs she interviewed for a new book, "Asia's Tao of Business: The Logic of Chinese Business Strategy," scoff at government statistics and don't use them in their planning.

Haley estimated that 70 percent of the companies doing business in China have never made a profit, and that it's hard to determine who actually owns them.

"The companies launched as IPOs are ostensibly private companies, but if you dig a little deeper, almost all of them are owned by the Chinese government in one form or another," she said. "You can't decipher who owns what, where the money comes from or where it goes."

Others before Halter have tried to track the performance of Chinese companies that were publicly traded in the United States.

The Shanghai Composite Index tracks many companies, but not all of them trade on U.S. exchanges. Bank of New York has an index of Chinese companies trading in American depository receipts, or ADRs, but not those with direct foreign stock ownership.

There are already more than a half-dozen Chinese funds available to U.S. investors, but neither the competition nor the warnings of skeptics bother Halter, who predicted China's economy will continue to grow faster than more-developed countries.

"This growth will probably continue for decades," he said. "Smart money from all over the world is rushing to China."

ON THE NET

USX China Index, www.USXChinaIndex.com