

The New York Times

DealBook Edited by Andrew Ross Sorkin

An Eye on Growth, Deals Stretch Across the Pacific

November 20, 2008, 6:09 am

The ties between small businesses in China and Southern California, developed in a decade of trade through the ports in Los Angeles and Long Beach, should continue to grow, despite the worldwide downturn, The New York Times's James Flanigan writes.

The volume of trade may be down now, business officials say, but the businesses are thinking of their long-term interests.

"In the global recession, Chinese companies are looking around the world to acquire knowledge," said Donald H. Straszheim, an economist and vice chairman of **Roth Capital Partners**, an investment bank in Newport Beach, Calif., that has arranged financing for companies in China.

So there are companies like **Shanghai Tiqiao Textile and Yarn Dyeing**, a fabric manufacturer, which is investing \$2 million to acquire 26 percent of the **Cynthia Vincent** fashion house in Los Angeles. "Profit margins are very bad now for textile makers in China," Yu Ming Pan, the company's president, said during a recent visit to Los Angeles. "We want to acquire branding and marketing know-how in this market."

Shanghai Textile is also investing in **Vicarious by Nature**, a designer of sportswear made from organic fabrics in Los Angeles. The idea is to have both an outlet for Shanghai's fabrics in these American companies but also to export American ideas about fashion to China.

"We will be investing in more companies, looking to the time when China's domestic market becomes a major consumer of fashion," Stacy Sun, a business consultant in Pasadena who represents Shanghai Textile, told The Times. She predicted that China's consumer economy would grow significantly over five to six years.

At the same time, a small company in Irvine, Calif., the **Composite Technology Corporation**, expects its business to grow because China is planning to spend \$586 billion in infrastructure development to spur its flagging economy.

Composite makes carbon fiber cables for electric power transmission that are lighter than steel and allow more current to be transmitted for each mile of line. So far this year, the company has sold more than \$12 million in cable to its Chinese distributor, the **Jiang-su Far East Group**, and it looks forward to more business with China and other developing countries. It is expanding its Irvine manufacturing plant for carbon fiber cables.

“The demand for transmission lines is growing because electric power is the absolute necessity for all other economic development,” Marvin Sepe, chief operating officer of Composite and a metallurgical engineer., told The Times.

The company was founded six years ago by entrepreneurs with experience in the aerospace and military industries in Southern California. Its business in China was arranged through Jack Chen, an investment banker in Los Angeles whose firm, the **Transworld Consulting Group**, has offices in Hong Kong, Shanghai and Arcadia, Calif.

To nurture the ties between the small businesses in China and California, Mr. Straszheim’s company, Roth Capital, is bringing executives from 70 Chinese companies to a conference in Las Vegas this week to meet with American investment managers.

Still, it is not an easy time to raise money. “If you have a great prospect that will develop over four to five years, we couldn’t do that now,” Byron Roth, chairman of the company, told The Times. “But if you have something that is ready to go right now, it can be financed.”

Among the companies Roth Capital is featuring at the conference is the **ChinaCast Education Corporation**, a nine-year-old company that offers college-level lessons over the Internet and by satellite throughout China, particularly to rural areas. ChinaCast has \$30 million in annual revenue and 1,200 employees.

Roth Capital has also backed **China Water and Drinks Inc.**, a company that collaborates with soft drink bottling plants to distribute water at 14 to 15 cents a bottle throughout the country. China Water was acquired this year by the **Heckmann Corporation** of Palm Desert, Calif.

Roth Capital has also raised financing for **Zhongpin Inc.**, a meatpacking company that distributes fresh and frozen pork products throughout China. Interest in China's development remains high, Mr. Roth said.

"Times are hard, but we have more investment companies coming to this China conference than came to the first one we held, in 2007," he told The Times.

His firm is not alone in providing a financing link across the Pacific. **Etech Securities**, a 10-year-old investment and brokerage firm in Pasadena, also connects investors in the United States with companies in China. "We are long-term investors," N. Jay Liang, president and chief executive of Etech, told The Times. "Chinese companies want to acquire management talent and know-how."

In the area of China's environmental needs, Mr. Liang said that Etech had raised capital for two major water treatment companies, **Jin Da Lai Waste Equipment**, the largest company in industrial waste water treatment in China, and **Southern Waste Water Treatment**.

At the beginning of November, Etech Securities held an equity investment forum in Chongqing, a city of 32 million people in western China that has increased in economic importance since the Three Gorges Dam hydroelectric project gave the city abundant electric power.

To be sure, conducting business with China remains difficult in some areas. Frankie Fook-lun Leung, a lawyer in Los Angeles who lectures at Hong Kong University, predicted that piracy of entertainment media and software would continue for a decade or until China concludes that piracy of intellectual property harms its own economy.

Yet law firms like **Morrison & Foerster, Paul, Hastings, Janofsky & Walker**, and the **USA China Law Group**, working through offices in China and Southern California, continue to pioneer dispute resolutions across legal frontiers and disciplines.

And continuing business contacts have fostered optimism about long-term opportunities for California businesses in China's development.

"When I go to China, I get a sense of optimism that I last saw in the early 1950s in America," James McClain, a marketing executive who is a co-founder of **Global Development Partners** with Richard Zhou, a former official of China's ministries of electric power and railroads, told The Times. Together, Mr. McClain and Mr. Zhou have

built a healthy business with \$1 million in annual revenue that provides detailed research reports on China's industrial needs in fertilizers, energy and raw materials.

Global Development Partners also has introduced Kryton, a product that waterproofs cement, to China's building industry. And Global Development Partners is now trying to gain approval for vitamin and biofiber nutritional products. "There is great receptivity in China for health products," Mr. McClain told The Times.