CFA Society Hong Kong | 30 YEARS ANNIVERSARY

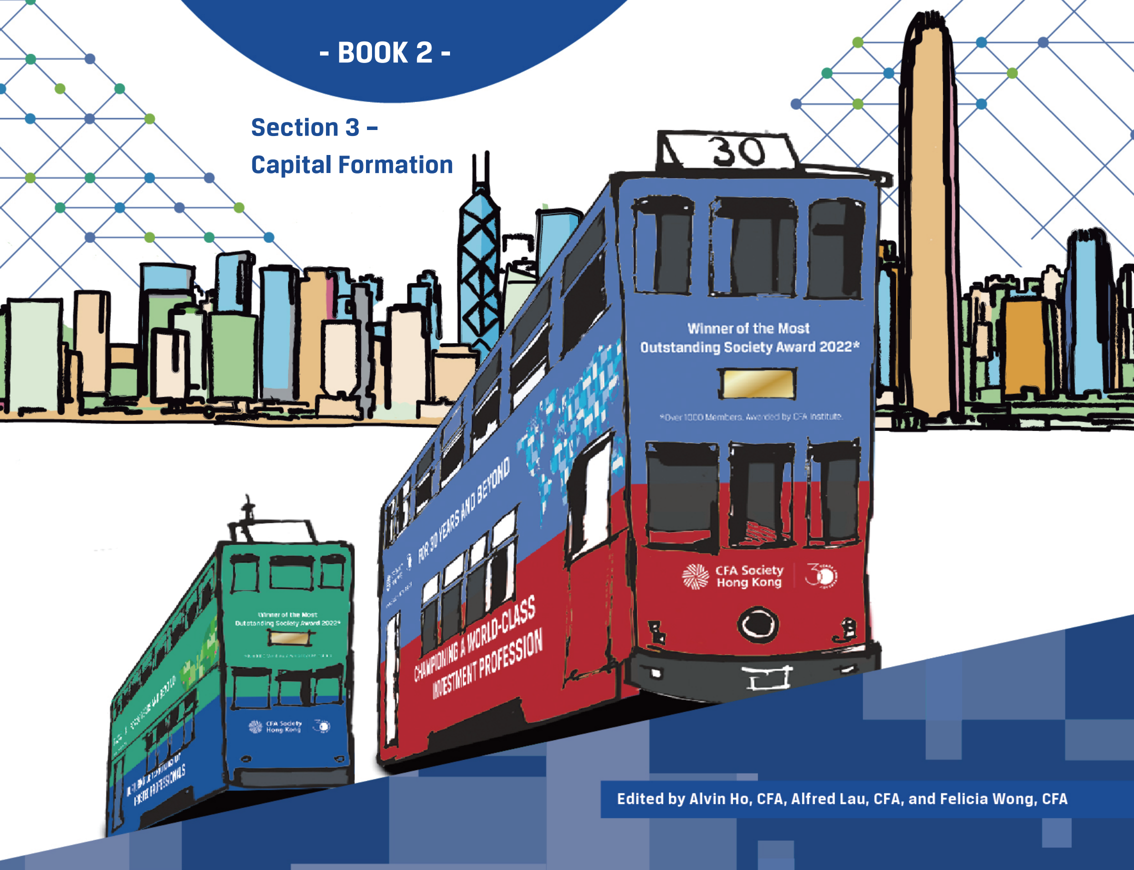
RISE FROM CRISES

- BOOK 2 -

How Hong Kong survived the financial and other crises, and rose to the occasion, over the past 30 years

30 tales from practitioners

Section 3 – Capital Formation



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This work contains excerpted chapters from *Rise from Crises*. For further content, please consult the other excerpted ebooks, or the complete volume.

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Section 3

Capital Formation

Sellsides,

Research

and Financial Intermediations

Chapter

Photo credit: Christiaan Hart

3.1

China's Commodity Boom: Born in a Storm

— Erwin Sanft, CFA

The seeds of China's infrastructure and commodity boom—which came to dominate global financial markets during the 2000s—were laid at a time of extreme financial stress and disorder. The contagion of the 1997 Asian Financial Crisis reached China's doorstep the following year in 1998. Hong Kong's stock market imploded and was only saved by an unprecedented government buying program. Amid the turmoil, China's 1998 Housing Reforms passed largely unnoticed, and the momentous implications of these reforms were not fully appreciated until seven years later, by which time the construction boom they triggered was in full swing.

Housing Reforms Provide the Catalyst

China had already taken broad measures to downsize and privatize its state-owned enterprises in the mid-1990s, as well as allow the expansion of private and foreign-owned businesses by expanding the coastal Special Economic Zone (SEZ) model throughout the country. The challenges presented by the Asian Financial Crisis forced the leadership to take immediate and drastic action to accelerate this process. Central to the emergency reforms announced in the midst of the crisis was the decision to transfer ownership of all existing state-owned housing to the occupants of that housing. The housing was transferred at extremely low prices, or in many cases, for free. The reforms also terminated the future provision of housing by public entities and moved the entire housing market to a commercial, market-based system. It proved to be an inspired move. By 2000, the benefits of this wealth transfer became clear, as residents used this housing as collateral to finance the purchase of modern new apartments which were being built at dizzying speed all across China. Mortgage lending became widely available for the first time, and fueled a construction boom that would last for over two decades.

Financial Markets Slow to Respond

Although the construction boom became apparent from 2000 onwards, financial markets continued to ignore the huge implications this boom would have for global commodity prices and financial market performance. There were two important reasons for this:

1. The bursting of the dotcom bubble. The collapse of the speculative frenzy surrounding the advent of the internet led to prolonged bearish global financial market sentiment through into 2001, compounded by the 9-11 terrorist attacks.

2. Lack of focus on China. Despite China's size, it simply didn't feature in the global financial models that were in common use at the time. China was neither a separate line item in global commodity demand-supply models, nor did it feature in global equity indices.

The latter problem was compounded by the listing of China's dominant mobile telecom company, China Mobile, in 1997. For a long time, it was the only large Chinese company listed overseas and—with the inflation of its valuation during the dotcom bubble—it had a 60% weighting in the MSCI China Index, making China look like a "single stock" market.

China's commodity producers were gradually undertaking stock market listings during the late 1990s and early 2000s, however. Most notably, the Big Three Chinese oil producers were listed in quick succession in 2000-01, and prior to that some key cement and coal producers were also listed.

Bullish Prognosis Seemed "Too Good To Be True"

The author of this article had the privilege of covering the China commodity sector from 1998 onwards at CLSA, one of Asia's leading stockbroking platforms, and in 2002 we entered into a research partnership with one of the world's leading commodity research providers, Macquarie Bank of Australia. The initial results of our collaborative research were astounding. The bullish picture in front of us seemed too good (or should I say, too large) to be true. China's commodity demand was tracking exactly the same "S Curve" path that Japan and the Asian Tigers had experienced in the 1970s and 1980s.

This “S Curve” analysis compares GDP per capita with commodity consumption per capita. Put simply, commodity consumption accelerates exponentially when GDP per capita reaches a certain level. Commodity demand reaches a plateau eventually, hence the “S” shape of the chart. In China’s case, its large population implied that its future levels of commodity demand would reach heights never seen before in human history. Would China really follow this path? Where would supply come from to meet this demand? Would China be able to afford this level of consumption if supplies became scarce? Even when we recalculated the S curves by only using China’s urban population, it still presented a bullish picture.

The income levels that trigger this acceleration in growth are different for different commodities. Bulk commodities and construction materials accelerate from a lower income level than the likes of non-ferrous metals and petrochemicals, for example. In the early 2000s in China, the key income thresholds for steel, coal and cement demand had been reached. These sectors saw staggering growth.

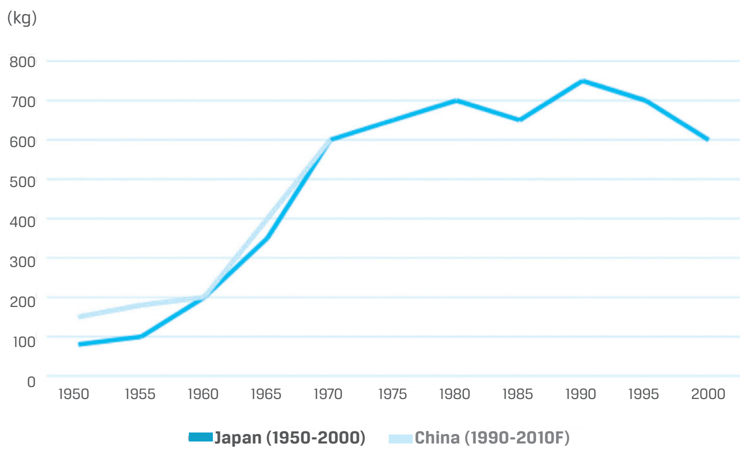

Figure 3.1.1: Japan and China Steel Consumption per Capita
Source: Macquarie, CLSA (2003)

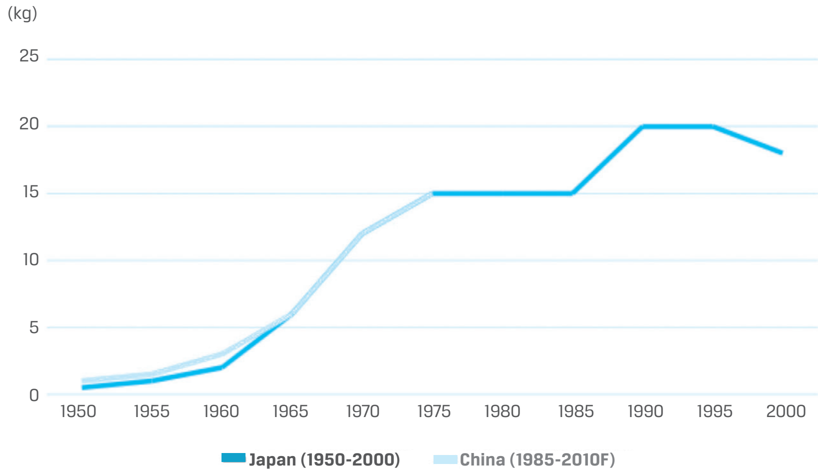

Figure 3.1.2: Japan and China Aluminium Consumption per Capita
Source: Macquarie, CLSA (2003)

We published a series of reports highlighting our research findings, including a report in early 2003 titled, “Pedal to the Metal: China’s Commodity Boom.” The market was still lukewarm to the idea, yet every month new data was released showing that China was experiencing a construction boom of unprecedented scale. And global commodity prices—long stuck in the doldrums since Japan’s boom had subsided—were finally starting to reflect the tightening of supply as China’s commodity demand surged upwards.

See No China, Hear No China...

Financial markets took another two years to fully understand and appreciate the scale and implications of the boom. The remaining hurdles that had to be cleared can be summarized as follows:

1. China experienced the SARS epidemic in 2003, which caused several months of economic downturn and financial market valuations correspondingly took a hit.

2. “China Bear” views gathered steam from 2001 onwards, which were based on the idea China’s construction boom was a debt-fueled bubble that faced imminent collapse.

3. China nationalized several privately-owned steel mills in 2004, stoking fears that commodity producers would not be allowed to fully benefit from the boom.

4. Global commodity analysts—whose ranks had been severely thinned after nearly two decades of downturn in commodity markets—were slow to restructure their models and separately forecast the impact China was having on global demand.

A couple of these hurdles are worthy of further elaboration. The more that China grew, the more vociferous the “China Bear” clique of commentators and analysts became. Their concerns were founded in a dislike of Communism and the dismal economic track record of authoritarian regimes—including China itself before 1978—that had relied on central economic planning. There were views that China needed to undertake political reforms and create Western democratic governance structures before it could undergo healthy and sustainable economic development. What the bears missed was the lead role adopted by the private sector in China's development. While attracting foreign investment was always a goal of China's market reforms and opening up, the more important dynamic was to open up most parts of the economy to local private enterprises. The bears can these days belatedly point to recent restrictions on the private sector as damaging China's development, which is true and something China's policy-makers will need to address if China is to maintain its successful economic development.

In the commodity space, anyone reading global commodity research in the early 2000s would be forgiven for thinking that the U.S., Europe and Japan were the only drivers of commodity demand worthy of monitoring. China would either be bundled into a line item representing the "Second World", which included the former Soviet Union states, or included in an equivalent of "Developing Asia" or just dumped into "Others". Even as China began to move global commodity pricing, popular myths emerged about the low quality or "crumble if you touch it" nature of China's commodity production. As a boy who grew up in New Zealand hearing similar nonsense about the quality of Japanese automobiles, I was immediately suspicious of such analysis and commentary.

Excerpt from "China Commodities: Pedal to the Metal", September 2003

// **Don't underestimate the impact of China**
Traditional weightings used to measure aggregate industrial production growth may be giving misleading results as far as commodities demand is concerned, particularly in relation

// to the impact of China. Most economic statistics traditionally used either ignore China totally or else only capture its impact indirectly.

In addition, one of the main features of China's growth is that it is taking market share away from manufacturers around the world. Japanese and other Asian industries have seen this trend for many years and European and North American manufacturers are also feeling the chill wind of Chinese competition.

As manufacturing activity moves away from the traditional producing areas in the OECD towards China, the relevance of conventional measures of industrial production (the key macro measure for the commodities sector) must be called into question.

Industrial production measures are indices that are collated from various countries and are summarized into regional and global estimates by using weightings for each country. The "weights" that are used are normally based on U.S. dollar GDP shares of those countries. They are rarely updated and often relate to historic GDP shares.

Using these types of weighting, China's industrial production contribution to global estimates is often put at around 5%! In reality, particularly in the commodities sector, China's share is much more important, and has been growing at a phenomenal rate.

Source: E. Sanft, CLSA, 2003

Global Commodity Craze

By 2005, seven years after the seeds of the construction boom had been sown in the midst of the Asian Financial Crisis, global financial markets were finally overcome with euphoria for China's economic miracle. Financial market participants reinvented themselves as commodity experts, and numerous funds and financial products were launched to capture the benefits of the boom. While it was pleasing to see the quality companies, I had followed for so many years earning the recognition they deserved, every boom unfortunately brings to the table many less deserving companies that rush to exploit bullish sentiment to raise funds.

And the signal that it was all over from a financial market perspective? Of course, that was when the smartest guys in the room decided to head for the exits. Glencore's 2011 initial public offering marked the high-water mark of China's commodity boom. Glencore, the world's largest commodity trader, was always the source of the best insights on commodity markets while I was covering the sector. Having generated enormous profits for its private shareholders during the boom years, Glencore made one last big windfall by listing itself as a public company. Its share price dropped by 85% over the five years after its listing, although earlier this year—11 years after listing—it did finally trade above its IPO price.

And in the midst of the boom? I departed for fresh pastures at a rival investment bank. I spent my first three months in the new job researching an obscure instant messaging services provider that had recently listed, Tencent Holdings, publishing the first BUY report on the company. Memories of the dotcom collapse were still fresh, however. As with the commodity sector, it would be years before the market came to fully appreciate China's internet sector. That, though, is a story for another day.

3.2
To Die and Then to Live

— **Candy Wong, CFA**

I began my financial career in the summer of 1997, right at the start of the turbulence of the Asian Financial Crisis. For someone who came from a non-finance background, the timing could not have been worse. I honestly thought my financial career might be over as soon as it had begun. But the lessons learned during that period were some of the most valuable I ever had, and the disciplines I developed during those early years have enabled me to survive in the industry longer than I ever expected. There is an ancient Chinese saying that things can be a blessing in disguise (塞翁失馬，焉知非福). The same can be said about the resilience of the financial system—without the painful trials in those early days, the system could not have weathered the subsequent storms.

It happened when it was least expected. When Thailand floated its currency in the summer of 1997, everyone expected the Thai baht to appreciate. But it didn't. That set off a financial tsunami that swept across the region. Asian currencies fell like dominos, starting with the Thai baht, the Indonesian rupiah, and the Malaysian ringgit in July, followed by the Korean won and New Taiwan dollar in October. That culminated in the attack on the Hong Kong dollar of 21-23 October 1997. By the end of the year, the baht was down by 48%, the rupiah by 55%, the won by 44%, and the ringgit by 34%. With its foreign exchange reserves largely depleted by the spiraling foreign debt, Korea defaulted in December, and was put under an International Monetary Fund (IMF) bailout program. Malaysia implemented capital controls.

Hong Kong took it on the chin. The aggressive selling of the Hong Kong dollar caused interbank liquidity to dry up, and banks had to scramble to secure HKD funding. Overnight HIBOR shot up to nearly 300% just before noon on 23 October 1997. The peg worked exactly as designed—holding the exchange rate constant, while everything else adjusted. The consequence was extremely painful: property prices halved almost overnight from the peak in mid-1997, wiping out equity for tens of thousands of homeowners. Unemployment soared and wages plunged by 30-40%. In just over ten months, the Hang Seng Index lost 56% of its value from the October 1997 peak, touching a low of 6660 on 13 August 1998. The resultant deflationary spiral lasted for years, with CPI down by as much as 14% from its peak in mid-1998 over a four-year period.

Hong Kong Broke from Laissez-Faire and Intervened in the Stock Market

Desperate times called for desperate measures. The Hong Kong government made the unprecedented decision to intervene in the stock market in the summer of 1998, buying HKD 118 billion worth of stocks in the constituents of the Hang Seng Index, equivalent to 6% of the HSI market cap at the time. In today's world, government intervention is largely considered par for the course in the region, as shown in Japan, Korea, and Taiwan. But back then it was still relatively rare, and for Hong Kong, an ardent disciple of laissez-faire, to have taken this path was bold and risky, and highly controversial at the time. But the gamble paid off with some luck. Three days after the Hong Kong government started buying stocks in the market, Russia devalued the ruble, defaulted on its domestic local currency bonds, and announced a moratorium on the payment of external debt. In the ensuing crisis that summer, Long Term Capital Management, one of the highly leveraged hedge funds which was long on EM sovereign debts and currencies at the time, collapsed. The large U.S. banks put together a USD 3.6 billion bailout package in September 1998, and the Federal Reserve cut interest rates by 25bps in each of the September, October, and November FOMC meetings to ease the liquidity crunch in the system, which helped stabilize the market. This provided the much-needed calm for Hong Kong. The massive stock holding bought by the Hong Kong government, which increased to HKD 190 billion in value by April 1999, became the genesis of the Hong Kong Tracker Fund, a vehicle created by the government in October 1999 to reduce its stock holdings. The IPO attracted 184,000 Hong Kong investors to participate, as eligible investors could buy at an effective discount of 11% to the issue price of HKD 12.88 utilizing loyalty bonus. With an issue size of HKD 33.3 billion, the Tracker Fund was the largest IPO in Asia ex-Japan at the time, and the first physical exchange-traded fund (ETF) in Asia Pacific. Today it remains one of the largest and most liquid ETFs in the region.

Strengthening the HKD Peg Makes It Less Vulnerable to Future Shocks

More importantly, the painful legacy of the Asian Financial Crisis also led to the strengthening of the currency board system, without which Hong Kong would not have been able to weather many of the subsequent crises. To address the structural weakness of the Hong Kong linked exchange rate system, namely the excess volatility of interbank liquidity and interest rates, the Hong Kong Monetary Authority (HKMA) introduced the Seven-point Measures on 5 September 1998, including making the Exchange Fund paper fully transferable with clearing balances, and specifying that Exchange Fund debt would only be issued in future based on capital inflows. By doing so, the HKMA has effectively enlarged the Hong Kong monetary base, which must be fully backed by foreign reserves under a currency board system (at that time the size of the foreign reserves were 3.6 times the enlarged monetary base). The increased size of the aggregate clearing balance and the additional flexibility of the balance would enable capital flows to be absorbed by fluctuations in the level of foreign reserves in the short term, and the larger size of the interbank liquidity would make it more difficult to speculate against the Hong Kong dollar. The interest rate channel for defending the currency would kick in only under extreme conditions, thereby smoothing out excessive interest rate fluctuations.

Another key adjustment under the Seven-point Measures was the extension of the convertibility undertaking from just currency in circulation to include commercial banks' clearing balances, allowing all Hong Kong licensed banks to convert Hong Kong dollars in their clearing accounts into U.S. dollars at the fixed rate of HKD 7.75 to USD 1. At the time the HKMA did not guarantee the conversion of funds from USD to HKD at a fixed rate for banks. In 2005, the HKMA further refined the system, shifting the weak side of the convertibility undertaking to 7.85 and introducing the strong side of the convertibility undertaking at 7.75. This set up an auto-correction system for the Hong Kong dollar in response to capital flows and market conditions, and has proven to be effective in stabilizing the Hong Kong dollar peg in view of the sustained strength in the U.S. dollar given the aggressive Fed rate hikes.

A Chinese Shock Therapy

Hong Kong emerged from the Asian Financial Crisis with a stronger financial infrastructure and the potential to be an ETF center in Asia, but what about China? China was facing an even bigger economic crisis during that period, weighed down by a colossal and inefficient state sector, while plummeting currencies across Asia made the RMB less attractive and China less competitive as an investment location. Instead of devaluing the RMB, as the market strongly speculated in the winter of 1998, Premier Zhu Rongji, a believer in shock therapy who was barely one year into the job, used the opportunity to push for drastic state-owned enterprise (SOE) reforms that no one had ever dared to contemplate, let alone execute. SOEs across the country were forced to restructure, merge, or shut down, with an estimated 40 million state workers laid off and their "iron rice bowls" shattered. On a trip to Shenyang in the late 1990s, I witnessed hundreds of unemployed SOE workers lining either side of the highway. The scene was unforgettable. But thanks to the aggressive reforms, many of the SOEs survived and were eventually privatized or listed in Hong Kong as publicly listed companies, which also contributed to the booming of the financial services sector in Hong Kong throughout the 2000s.

While downsizing the Chinese state sector, Zhu knew he needed to find a new source of growth to absorb the productive factors in the country. That's where the World Trade Organization (WTO) came in. Against the objections of many in the leadership at the time, who considered the terms offered by the Western countries as too harsh and too humiliating, Zhu was instrumental in convincing the senior leadership politically and negotiating final entry terms acceptable to both sides. The process was fraught with controversies, and the outcome was as uncertain as the start. But looking back today, China's entry into the WTO in 2001 was a milestone and turning point for the Chinese economy, as it paved the way for the influx of foreign direct investment by multi-national Corporations to set up their manufacturing bases in China, confirming China's status as the world's factory and opening many new export markets. The release of productivity from a cheap and skilled labor force led to a sustained period of strong economic growth in China, and the accumulation of foreign exchange reserves from the current account surplus was eventually utilized in the recapitalization of the banking sector in 2004. The injection of liquidity into the financial system eventually resulted in the mother of all bull markets in 2005-07, until the Global Financial Crisis put a stop to that in 2008.

Prepare for the Worst but Hope for the Best

There have been many naysayers about Hong Kong in the past 25 years. "Hong Kong is dead" has appeared on the front page of magazines over the years. Contrary to expectations, I think Hong Kong has an even more important role to play in the future of China's economy amid rising geopolitical risks and the potential for deglobalization. Although regulators in the U.S. and China are working on an agreement in the over-decade-long auditing dispute, potentially allowing Chinese ADRs to remain listed in the U.S., the "homecoming" of those Chinese firms listed in the U.S. markets is still seen by many as inevitable at some stage in the future. ADR-listings are a historical legacy from an era when the Chinese capital markets were not as well developed in terms of their fundraising capabilities and liquidity as they are today. But the domestic A-share market and the Hong Kong markets have come a long way on both fronts, and have built their credibility as some of the most vibrant capital markets globally.

How should we prepare for the challenges and opportunities ahead? Hong Kong could develop a bigger domestic institutional investor base to reduce the reliance on foreign capital flows and to smooth out short-term liquidity volatility. If we look globally, markets with well-developed pension fund systems like the 401K in the U.S. and the superannuation system in Australia tend to have more stable equity market performance and a lower cost of equity for their corporate sectors. A mature pension fund system generates stable captive demand for domestic equities, or the so-called "domestic bias." With a population of only 7.5 million and a small pension fund system under the Occupational Retirement Schemes (ORSO) and Mandatory Provident Fund (MPF), Hong Kong would not be able to support the capital demand of all of China. According to OECD data, Hong Kong pension fund assets as a percentage of GDP is only 54% as of 2021, much lower than many other developed economies including Australia (148%), U.K. (117%), U.S. (98%), and Canada (90%). Hong Kong needs to expand its pension market by lifting the cap on MPF contributions from HKD 1,500 per month and providing tax incentives for higher voluntary contributions from both employers and employees. This could accelerate the growth of Hong Kong pension assets and create more captive demand for Hong Kong equities. According to estimates by the Actuarial Society of Hong Kong, pension assets are projected to grow at 7% CAGR in 2020-40 to reach HKD 3.9 trillion. At the same time, further liberalization of the Stock Connect scheme to allow more Chinese pensions and institutional funding into the Hong Kong markets would also enhance the liquidity in Hong Kong as the offshore financial market for China.

Furthermore, Hong Kong should lower transaction costs for equity trading to attract more liquidity providers and high-frequency trading to improve the overall market volume to support the return of the ADRs and listing of mega-cap corporations. Currently trading volumes of Hong Kong-listed ADRs is only 20% of their U.S.-listed counterparts, and one of the key reasons cited by many market participants is the higher transaction costs in Hong Kong. With the convergence in many markets protocol including the recent realignment of holiday arrangements between the Hong Kong and China markets, there is no reason why Hong Kong could not follow China in levying stamp duty on only one side of stock trading transactions. Or, in the example of Taiwan, exempting stamp duty for day traders for a certain period.

Times of crisis force you to make tough decisions. In The Art of War by Sunzi, one of the strategies is to "to die and then to live" (置之死地而後生). When one is confronted with mortal danger, one fights desperately to live and to get out of the impasse. I guess what Hong Kong and China went through during the Asian Financial Crisis is testament to that.

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3.3

Government In, Free Market Out

— **Water Cheung, CFA**

It was a typical Canadian hot summer afternoon 30 years ago. I was a CFA Level III candidate studying in the Robarts Library in Toronto. The late May sun was baking the ground to compensate for the harsh cold winter prevailing not too long ago. From my window, I could see some scantily clad young ladies sunbathing on the lawn. Feeling miserable at not being able to join them, I tried to concentrate on my studies.

I was a young analyst in an investment bank in Canada. My study habit typically involved not touching a single page of the study material for months, then taking a two-week study leave just before the early June exam to totally immerse myself in study. It is anything but a virtuous way of learning. But it worked, and I passed the three levels in consecutive years.

I returned to Asia in 1993. In the ensuing three decades, I witnessed three major financial market crises, which were:

1. The Asian Financial Crisis (AFC, 1997-98)
2. The Global Financial Crisis (GFC, 2008-09)
3. The Pandemic-led Crisis (2020- Now)

Now, when I look back, I can see how profoundly the attitude towards the free market and the role of government has changed over time.

Free Market Is King: The Asian Financial Crisis (AFC)

My first job after returning to Hong Kong was to run the regional market derivatives trading for an U.S. bank. A few years later, I was headhunted by a Canadian Bank to set up the derivatives trading desk in Singapore. Spreads were rich, profit was high (at least according to the mark-to-market rating provided by the system), and adding customers and positions was not a problem. Then came the AFC.
The AFC was precipitated by the breaking up of the Thai baht's pseudo-peg to the greenback. The stability provided by the peg had brought in cheap foreign capital and done the Thai economy good in the preceding decade, while baht had accumulated the most popular foreign exchange arbitrage positions in the world. Market intelligence suggested that there were billions of such positions in different forms.

Hedge funds and proprietary trading desks of investment banks were being blamed for triggering the regional agony. They were the ones who first sounded the alarm that Thailand lacked the foreign reserves to support the peg.

By 24 October 1997, market forces led the baht to depreciate by 60% against the U.S. dollar. The depreciation triggered a wave of speculation against other Southeast Asian currencies; at worst, the Indonesian rupiah, Malaysian ringgit, and Philippine peso depreciated by 47%, 35%, and 34%, respectively.

Malaysia's Prime Minister Mahathir Mohamad openly called speculator George Soros a villain. Public opinion in the Western media however seemed to go the other way. In fact, the free market was still deemed the holy grail to economic success, the Western way at least.

One country after the other, Thailand, Indonesia, and Korea, accepted capital injections from the IMF, adopted austerity programs prescribed by the IMF, and maintained the free float of the currency.[1]

The only exception was Malaysia. Prime Minister Mahathir shunned the international pressure, imposed capital controls and kept the ringgit pegged at 3.8 against the U.S. dollar. Malaysia avoided the penalty handed down by a heavy-handed IMF that some blame for worsening the turmoil.

In the aftermath of the AFC, I had the first glimpse of the power of a government. To curb currency speculation, the Bank of Thailand (BOT, Thailand's central bank) chose to use executive power to sanction the baht settlement of any foreign exchange position that it deemed "not genuine." I made a number of trips to the BOT to personally present the derivative deals which required BOT approval for settlement. I camped out in the opulent Sukhothai Hotel in Bangkok for days, waiting for the appointment with the BOT official to be confirmed. At the end, all deals got approved. The bank saved millions of U.S. dollars.

We Need Big Brother's Help: Global Financial Crisis (GFC)

A decade after the AFC, the world was hit by the GFC. The role played by a government caused a major detour in my career.

The world had enjoyed a prolonged low interest rate environment. Financial innovations such as CDOs/CLOs created additional liquidity to further fuel the property market bubble in the U.S.

I was working for an U.K. bank and was, among other duties, running the Emerging Markets business in Asia. The bank at one time had the largest bank balance sheet in the world.

At that time, the bank was the leading partner in a consortium executing the largest bank acquisition in history, with a total consideration more than USD 100 billion. I was recruited with the expectation of running an aggregated business with revenue close to GBP 1 billion.

At the outset of the crisis, we knew our credit book, given the size of our balance sheet, would be under pressure, but we never expected the acute intensity. The bank, a latecomer in the structured credit space, had turned very aggressive in credit and correlation risk in the years leading up to the GFC. We manufactured and brokered CDOs/CLOs, and inherited some residual exposure. It didn't take long before we found out that we did not have enough capital. The bank sought help from the British Government.

The bank's liquidity troubles eventually evolved into the largest corporate default in U.K. history. The government came in and injected GBP 45.5 billion of taxpayer money, and became the majority shareholder of the bank. The bank's global ambitions hit a brick wall. My portfolio was curtailed. In the end, there was little fun to be had being Her Majesty's Servant, and I decided to take a golden handshake and part with my last paycheck.

Even today, observers have likened GFC to the Great Depression in the 1930s. Few questioned whether the government should act; more asked whether the government had done enough. They asked, "If we saved Bear Sterns, why not Lehman?"

The subsequent quantitative easing globally saved the banks' balance sheet. However, it, in turn, created more asset bubbles.
Austerity was the watchword of the day during the AFC. During the GFC and the early part of the last decade, some heavily-indebted countries such as Greece were asked to exert financial discipline. But as quantitative easing gained such widespread acceptance, government bail-outs were not just expected but desired.

Government Did Not Do Enough: Pandemic-led Crisis (PC)

The next major market disruption was caused not by human action but an alien virus. The Pandemic-led Crisis (PC) is part of a perfect storm that is still brewing today.

After the GFC, I left the rank of a salaried man and became an entrepreneur. I launched a boutique merchant bank platform with my partners in London, New York and Tokyo in 2010. The flexibility of not working for a large institution gave me the luxury of venturing into fintech and impact investment. It also gave me time to observe the world at large, with a wider and deeper perspective than just watching the market.

One of the key and lasting backdrops of the PC is the continuously deteriorating Sino-U.S. relationship. China and the U.S. entered into a trade war in 2018. It took no time to reveal that it is, beyond commercial, but actually a clash of ideologies. Would the American accept an economic equal with diametrically opposite political beliefs?

In fighting the pandemic, Washington has had zero hesitation in deploying both fiscal and monetary stimuli, while Beijing was much more measured in giveaways. However, the latter adopted a Spartan approach in imposing lock-downs, sometimes paying a heavy cost in terms of daily economic activities of citizens.

While the COVID-19 pandemic's impact goes far beyond financial markets, the heavy hand of government is also plain to see, in such areas as the foreign exchange markets. The U.S. rate hike has caused a major interest rate gap between the greenback and USD-pegged currencies such as the Hong Kong dollar. Yet these days, you rarely hear of any significant raiders on the currency peg. I remember, in 2006, a foreign exchange trader working for a European bank in Vietnam was arrested for rogue trading. Today it is conceivable that a hedge fund manager trying to break the dollar peg in Hong Kong with ill intent could be prosecuted under the National Securities Law.

Conclusion

Looking forward, as geopolitics grow more and more antagonistic, policy risk is real yet capricious. Avid investors need to equip themselves with discerning eyes to assess global matters.

To summarize the changes I observed over the past 30 years:

1. Hedge Funds are out, the National Securities Law is in
2. Austerity is out, Spend-to-recover is in
3. Globalization is out, Nation-first is in
4. Free Market is out, Big Government is in

Notes

1 A very well publicized photo at the time showed the then IMF Managing Director Michel Camdessus standing with arms folded watching Indonesian President Suharto sign an unpopular bailout agreement.

3.4

Enjoy the Ride

— Mariana Kou, CFA

The key takeaway for me from the past decades as a student, an equity research analyst, and an investor is that the only thing we know for sure is there is a lot we do not know. Staying humble and hungry is my motto. It is inevitable that there will be ups and downs in the financial market, and in fact in life overall. It would be wise to always keep an eye on the downside and beware of the risk, but the tough decision of staying the course versus cutting losses can only come from personal experience and the study of history.

2008: The Global Financial Crisis

I started working at Lehman Brothers in New York after college graduation, and I applied to MBA programs rather early after working for a year, with the goal of returning to Asia soon to launch a long-term career in finance. My first real taste of a crisis, however, hit me in the face just as I arrived at Columbia Business School in 2007. As customary in business schools, the internship recruiting season started not long after we kicked off the program in August. I was very eager to seek a role in equity research. After a few internships during college, and working full-time on Wall Street, I figured that research was the area I was the most interested in and the best fit for my personality. The recruiting season was tough, as the global economy and the finance industry continued to deteriorate going into late 2007. Nonetheless, I eventually received an internship offer at the conglomerate equity research team of JPMorgan's Hong Kong office, which was very exciting and one of my top choices.

The rescue of Bear Stearns, or more accurately the acquisition of same by JP Morgan, was very dramatic. Being in New York and at a traditionally finance-focused business school sealed some solid memories. I still remember how all the students would gather round the screens in the lobby of the business school building, making predictions about the market as well as the fate of our internships and full-time job offers. I came back to Asia for the summer, and found that Asia did not seem to feel as much pain… yet. The summer of 2008 was an incredible learning experience. It gave me a flavor of how it would be to be a research analyst. I joined the daily morning meetings, some corporate meetings, and essentially shadowed work under a senior analyst. Meanwhile, the global crisis worsened, with frequent bulletins on liquidity issues and bankruptcies.

As I returned to school in the fall of 2008, the class sentiment was completely different. We were all thrilled last year about a bright career in finance at one of the top business schools. A year later, it was gloomy. Everyone was very worried—for the economy, our career, our future, and the large sums that we were paying for tuition. We started hearing about banks rescinding offers and some banks changing their offers, reallocating people from front office to back office, to accommodate the latest situation. As nervous business school students, we were desperately hoping to get some guidance from our more experienced alumni at the banks; but unfortunately, with top employers like Bear Stearns, Merrill Lynch, and Lehman Brothers all struggling, our normally helpful alumni could only offer some kind words to encourage us to hang on, while they also worried about their jobs.

The crisis started to spread internationally in 2008. Decades of globalization had led to interconnected financial systems. Rescue plans, local riots, and complaints against highly paid bankers were all over the news. It was an extremely stressful time for all. The financial market turmoil trickled down to various industries and even households as people started to lose jobs.

For me, it turned out that my internship employer had to freeze headcounts and would not be able to extend full-time offers to its equity research interns. It was honestly disappointing. Moreover, it also was emotional to see my first employer, Lehman Brothers, the giant in fixed income, declaring bankruptcy and going down in financial history. It took me dozens of informational interviews and networking sessions, and lots of patience and persistence and some luck, as well as an internship in New York in between, before I landed back on track for a research career in Asia. I eventually launched my research career at CLSA, an equity research-focused investment bank, and stayed there for almost ten years, working from research associate to senior analyst.

The Global Financial Crisis taught me the inevitable volatility that we should expect in financial markets and in life. While I chose to be persistent in the pursuit of a research career during that time, some of my peers decided to take on roles similar to their pre-MBA jobs, and some decided to switch into completely different fields. Unlike an investment decision, life decisions are harder to quantify. At the end, though, we turned out okay and all of us had lots of interesting stories and happy moments to share at our ten-year reunion party in 2018.

2014-2021: Private Education in China

In a matter of 15 years, an industry that we once thought would only be a niche business segment has grown into a space with tens of listed companies in Hong Kong and the United States, and at one point with total market capitalization of over USD 100 billion. In 2021, however, this segment beloved by investors saw a drastic change in its regulatory landscape.

I was a consumer analyst at CLSA focusing on the luxury goods space when I first encountered the opportunity to cover this new industry—education—in 2014. There were at the time already a few Chinese education companies listed in the U.S., but they had not gained much attention and were not well covered. Some of the names were household brands in the mainland. For example, New Oriental (EDU US) was so well known in China that there was a movie made documenting the founders' entrepreneurial journey. The company was the go-to place for TOEFL (Test for English as a Foreign Language) preparation, and one of the founders, Michael Yu, grew from an English tutor to a multibillionaire executive. Over the years, the company built a national network of learning centers and expanded into other education segments, of which the K-12 after-school tutoring segment delivered the next chapter of growth. Another key player in this tutoring segment, TAL Education (TAL US), listed in the U.S. since 2010, was also rapidly expanding.

In 2014, I got a chance to work on school operator China Maple Leaf's IPO, and that kicked off my coverage of China's education industry. China Maple Leaf (1317 HK) was one of the leading international school operators, offering a bilingual, dual-curriculum, and dual-diploma education to high school students. Momentum in the space started to pick up going into 2016 with yet another education company IPO in Hong Kong. Despite some regulatory documents that impacted the market in late 2016, 2017 turned out to be a very busy year for education IPOs, and the deal flow continued to be solid going into 2018 and 2019. Deloitte Research's study compiled the public listings in the past decade for education companies in China, which showed the spike in 2017-18 (Deloitte Research, 2019).

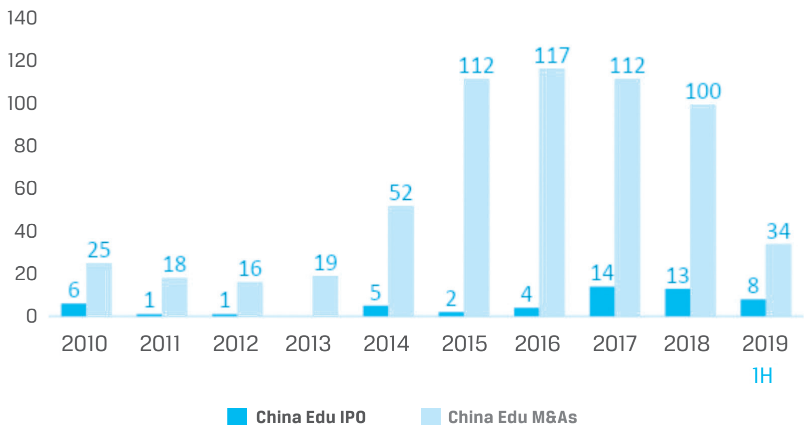

Figure 3.4.1: Number of IPOs and M&A deals in China education sector
Source: Adapted from Deloitte Research

Global markets started stumbling in early 2020 due to the COVID-19 pandemic. Various easing policies and programs by the main central banks worldwide helped to lift the markets in the second half. Hong Kong, for example, recorded the highest level of IPO proceeds at HKD 400 billion (Deloitte, 2021). The big issue for the education industry in China, though, hit in the first half of 2021, with a magnitude and suddenness that totally shocked investors.

In March 2021, there were market rumors on further regulatory tightening of the K-12 after-school tutoring space, including pricing and advertising controls. In May 2021, three years after a draft was published, the final version of the regulations on private education came out. The document largely aimed to ensure orderly development of private education and avoid over-commercialization, especially in grades 1-9.

In June, the Ministry of Education announced that a new department would be set up to regulate the after-school tutoring industry to reduce pressure, and ensure students were not overly burdened by academic work and the cramming culture. This was shortly followed by another announcement that suggested that schools should be offering these after-school tutoring services. A document in July further suggested that the existing after-school tutoring companies should be not-for-profit and should not be listed. They should not be offering classes over summer and winter breaks, weekends, and national holidays. This was a major hit. The summer and winter breaks were key revenue contributors to these companies.

TAL Education fell from its peak of around USD 90 a share in February 2021 to around USD 6 by the end of July 2021. Meanwhile, New Oriental dropped from a high of around USD 195 a share in February 2021 to USD 21 by the end of July 2021. This essentially sucked out billions of dollars of market capitalization in the education space. The collapse of the two education giants also dragged down the rest of the sector, and some investor concerns even spilled over to other industries. The other K-12 school operators also had hiccups with their financial results in late 2021, as the auditors and lawyers tried to apply the regulations on private education announced in May. After some delays, these companies eventually announced financials, but they were very different from before, with affected entities of the groups deconsolidated. This remains an evolving situation and we will see how the industry and regulations develop in the future.

There remains a silver lining, however. Although the after-school tutoring companies and K-12 school operators were severely affected, the higher education companies, namely operators of private vocational institutions and universities, seemed to enjoy some policy support, at least for now. The COVID-19 pandemic has heavily hit global economies and employment situations. Against this backdrop, the higher education segment should be relatively steady in the near term, as it is so closely linked to youth employment.

The Road Ahead

I left sellside equity research in late 2019 to transition into an investor role, looking at public and private deals. Even though I was not officially an education research analyst at the time that the industry went through its downturn in 2021, I still followed the sector closely. The drastic collapse of the sector once again reminded me of the importance of realizing the limits of knowledge and control. Preparation and hard work are basic criteria to success in any fields. As an investor, though, we need to learn to make tough decisions and if needed, cut losses and move on. We need to stick to a strategy and try not to get affected by short-term market volatility and our emotions. The art, however, is to identify what are short-term volatilities and what are structural reforms.

I am a true believer of regular assessments, which can be self-assessment or quantitative analysis of portfolio returns. In any case, I believe that from the process of assessments, we can learn from the past—both the goods and the bads. While no one has a crystal ball to see the future, we, CFA charterholders, are equipped with the tools and skills to do detailed analysis and make reasonable and fair forecasts. What I can be sure is there will be more new technologies, new sectors, and new companies coming to the market; and there will be more cycles. We should learn from the past and constantly enhance ourselves, and never forget to give back to the community.

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3.5 How a CFA Charterholder Surfs the GFC and the Tides of Web3

— David Ching, CFA

An Eye-opening Internship

15 September 2008—a day to remember for the world, marking the beginning of the Global Financial Crisis (GFC) as the 158-year-old Lehman Brothers filed for bankruptcy. The bankruptcy decision was taken in an emergency meeting which started at midnight in the presence of most of the key officials of Lehman Brothers. Wall Street opened with the news of the bankruptcy, and the key equity index immediately crashed 4%, the biggest single-day plunge since the 9/11 attacks. I remember that I first heard the news from the radio just after I landed in London, where I was an intern in the Asset-Backed Securities (ABS) team of a bulge bracket investment bank, heading back to my offices at Liverpool Street. Being a young university student, I had little idea as to how serious the failure of the "Brothers" would be for my career, the market, and the wider economy. I soon realized that I was literally at the eye of the perfect storm of the GFC.

I was in my final year of the Engineering, Economics and Management degree program at Oxford University in 2008, where I had to complete a six-month internship, and write a thesis about it, as part of the graduation requirements. Being a novice undergraduate, I didn't have a very clear idea of my long-term career goal at that time. Fascinated by the high remuneration and glamorous lives of bankers and traders portrayed in movies and TV series, I was just following the most popular career path for Oxford graduates then, fighting to get an internship at an investment bank in London. With countless attempts and repeated rejections, I finally became competitive enough to land an offer at the Debt Capital Markets division in an international investment bank that summer, although I had limited knowledge of mortgage-backed securities and collateralized debt obligations (CDO) at that time, apart from the textbook formula of "bond price goes down when interest rate goes up."

A Dream Team

The team I was attached to was a medium-sized one with a diverse background of teammates from various countries, including the U.S., Italy, Ukraine and Asia. It was normal to hear several different languages at our desks as we helped package those interest-generating assets from around the world into securities, with clients ranging from auto companies to banks. I quickly discovered that working in an investment bank was no walk in the park. The learning curve was steep: I had to pick up a lot of new financial knowledge and technical terms and jargons from scratch, as I had studied only a few financial courses under my degree program. Furthermore, I had to raise my PowerPoint skills up a notch in order to meet the strict requirements of the Managing Director, who required a 50-page presentation to be completed overnight within five hours before his meeting. Managing the expectations of the demanding Vice Presidents on one hand, which meant keen competition with other interns for performance, and simultaneously developing positive relationships among teammates on the other hand, required sophisticated interpersonal skills. I quickly realized that I was working 16 hours almost every day, seven days a week, and my hourly wage was probably lower than if I was working at a fast food chain. Fortunately, the senior MD I reported to was a very kind

English gentleman, and was willing to take time to coach me, despite his seniority and the hierarchy difference between us. I was therefore able to learn a great deal, and started to develop myself gradually as a finance practitioner during that time.

The Lethal Phone Calls

Back to the day of the Lehman failure: I was just coming back to London after a few days off back in Hong Kong to attend my sister's wedding. I recall that when I first entered the office that day, there was a very heavy and unusual atmosphere blanketing the whole office. Instead of allocating tasks, the MDs were unusually quiet, and everyone was pretending to be busy at work. I sensed that something had gone wrong. Suddenly the phone on one of the directors' desks rang, and he picked it up nervously and then headed slowly to the meeting room. I did not dare to ask what had happened, as even the most talkative intern did not say anything that morning.

Then, another phone rang and the recipient team member, following suit, went into the meeting room. The first director, looking pale, came back to his desk after 15 minutes, escorted by a security guard, and started packing his personal belongings. I immediately realized that it was the Human Resources Divisional head calling him into the meeting room to inform him that he was fired with immediate effect. No one was hoping for the phone to ring, yet most of them knew that they were unlikely to escape from the lethal call that day. Another lesson learnt by me during the internship is that investment banks can be ruthless and straightforward—when they start hiring, they hire people in a frenzy; when they start laying off staff when things go south, they make redundancies swiftly without mercy. After all, it is merely a routine part of their job, or the culture of the industry.

Eye of the Storm

After that week, our whole team shrunk by nearly 70% from a 15-person team into a five-person one, leaving behind the senior MD, two VPs and two interns. That is what a financial upheaval can bring about. Strictly speaking, being an intern, I could not be "made redundant" per se. Indeed, it did not make any economic sense for the firm to fire us, given that we were the "cheapest" headcount, who would be kept at least to do some pieces of grunt work, and who would automatically leave the firm in a couple of months anyway. While I was still shocked by how empty our floor had become in just one week's time, I later learned that I had gained luckily one of the most valuable intern experiences, one that I had never envisaged before. As the remaining senior MD had over 20 years of experience in the ABS space, he was invited to advise the Bank of England (BoE) and the European Central Bank (ECB) on how to help solve the liquidity crisis.
The roots of the 2008 GFC were complex, intertwining and multi-causal. However, one of the key causes was the loss of confidence in credit assets the banks held, especially in mortgage and auto loans, and in ABSs and CDOs made from these loans, resulting in a liquidity crunch for these banks and a vicious cycle for the economy. As such, the central banks had to act as "buyer of last resort," buying up these illiquid assets or ABSs which no one wanted to buy at that time, thus freeing up the balance sheet of banks and directing liquidity to the real economy.

A Thesis with Blood and Tears

As an intern who had little real-world working experience, I had the valuable opportunity to shadow my MD and prepare those high-level materials to advise the BoE/ ECB. Our team also had chances to be involved in numerous deals to structure those ABSs/ mortgage-backed securities (MBS) transactions sold to the central banks. It was a brutal two-month period during which I worked almost 16-18 hours a day, six and a half days a week, as we were doing 15 people's work with only five people. It was indeed an invaluable experience because I was so lucky to be involved in deals and tasks I would not have been able to do normally as a junior intern. These experiences, both technical and mental, would prove to be valuable and helpful in the later stages of my career development.

As part of my degree program requirements, I had to write a thesis on a topic that was related to my internship. Without hesitation, I picked a topic related to the financial crisis, on how to value ABSs in an unstable financial market. I am inclined to think that my first-hand experience on this unique topic significantly contributed to an excellent thesis and helped me earn first-class honours for my degree.

Survival of the Adaptable

Having completed such a fruitful internship, I naturally wanted to explore a career in the finance industry. As a rule of thumb in those good old days, interns having met the performance requirements during internship would usually get what we called a "return offer," denoting an offer for a full-time position at the investment bank. As my performance was well appraised by the team head, I would have got the return offer without difficulty, if it had not been a very gloomy year with global hiring frozen for almost all banks. Instead, I had to send out my CV to almost all banks on the street to try my luck for an internship. Unsurprisingly, I only got a few interviews but with no offers in return, given the market conditions, and that my experience with ABSs was less relevant at the time in the wake of the GFC.

On returning to Hong Kong, I started off as a management trainee in a multinational conglomerate. Although it offered good long-term career prospects for upward mobility to senior management roles in 15-20 years, as a young fresh graduate with a passion to move up the career ladder as soon as possible, I found the pace and progression a bit slow. So, after I had completed the management trainee programme, I looked for a career change.

Path to a CFA Charter

With my academic background and internship experience, I had a strong interest in the financial markets, especially the equities markets. A lot of jobs require even younger graduates to hit the ground running with their roles. So, during the first few years after my graduation, I embarked on my CFA exam journey to equip myself. It was definitely not easy to study while working. Even for CFA Level I, I had to spend almost 200 hours revising for the exam in order to get a pass. Although this was already shorter in length than the average study time length of 300-500 hours for a candidate who passed, it was still a lengthy period, given my finance experience and knowledge. I had to give up time for leisure and meeting with friends and family members as well.

However, with hindsight, it was well worthwhile for me. Indeed, it gave potential employers confidence that I had attained some financial knowledge which would be useful in a wide range of roles in the financial world. Even before I got my CFA Charter, just by writing on my CV that I was a CFA exam candidate, having passed at least Level I of the CFA exam would let potential employers know that I had been making efforts to learn more and was really passionate about the industry. Reaping the rewards of studying for my CFA exams, I was granted some interviews with big investment banks, and ultimately got my first role in the industry as a research analyst in a Bulge Bracket investment bank.

Much More Than a Designation

To achieve the CFA designation to add it onto your name card is indeed hard work, but it is well worthwhile. Having got the designation itself was not the most important for me, but the knowledge that I had acquired during the program was actually the most helpful. Later on in my career as an equities research analyst, I needed to help do a time-sensitive analysis on some exotic derivatives and ABSs in order to value a company transaction. No one in my team, even my boss, knew how to deal with them, as most of their experience was with equities. Yet by applying successfully the knowledge and formulas from the CFA materials as well as from my internship experience at the ABS team in London, I was able to help complete the task accurately and efficiently. It demonstrates that the CFA materials are really useful and practical, and not just for the CFA designation or for academic studies. It was one of my proud moments as a CFA charterholder.

2022: History Doesn't Repeat, but Rhymes

"History doesn't repeat itself, but it rhymes." This is not just a cliché. Jumping to the recent past in 2020, COVID-19 hit in the first quarter of the year, followed by a massive panic selloff in the financial markets. Central banks, including the Federal Reserve, restarted the massive interest rate cut cycle and Quantitative Easing, pumping liquidity in the markets and boosting prices of equities, commodities and property alike. A new asset class, cryptocurrencies, also staged a massive rally with abundant liquidity. Bitcoin rallied over 1500% from March 2020 and hit an all-time high of about USD 69,000 in November 2021. The hottest investments and buzzwords at that time were cryptocurrencies, NFTs, metaverse, Blockchain and Web3. Facebook changed its name to Meta, and various

Fortune 500 companies including Tesla announced their investments in Bitcoin.

Always fascinated by new technologies, I had conducted research into Blockchain technology since 2017, and indeed believed this new technology could revolutionize many industries, from payment to gaming to art in the long term. However, having survived the previous Global Financial Crises, I felt deep down in my gut that something uncomfortably similar might be forthcoming. The strong surge of liquidity was artificially created by the central banks. With the bottlenecks of the supply chain removed, given the easing of COVID-related social distancing measures, a strong rebound of demand led to massive inflation. Euphoria in the market meant there was excessive use of leverage in the market, especially for new asset classes like cryptos. However, few of my friends gave heed to my advice about the risks of the market, when it was rallying almost every day.

Then came the interest rate tightening cycle, the Russia-Ukraine conflict, increasing regulation of the markets, etc. Investors started to wake up and dump all assets, including cryptos. The impact on the market was not dissimilar to the GFC—Bitcoin prices corrected over 70% in less than six months and the S&P 500 also drew down by around 25%. Failure of the algorithmic stablecoins like UST, powered by the Terra Luna blockchain, was similar to the failure of the CDOs back in 2008. The failure of a crypto hedge fund, Three Arrows Capital, also bore similarities to the failure of Lehman Brothers. The key differences are that the blockchain world is much more decentralized, borderless and traded 24-7, unlike the equities market. While Blockchain-related investments are also affected by macro events and liquidity fund flow, there are so many more events that can affect prices. Events and price movement can also progress much farther and faster than in traditional markets.

There is a saying in the Blockchain world that "one day on the Blockchain equals to ten years in the normal world"—meaning that you need to be much more efficient to be up to speed in these markets. Yet, having gained the extensive knowledge through the study of the CFA exams and my experiences with the GFC, I am able to escape decently from these huge drawdowns and remain resilient even in the Web3 world.

A Society That Has Thrived for 30 Years

I started serving as a volunteer for CFA Society Hong Kong around five years ago in various committees, including the Candidate Services Committee, Career Development Committee, Continuing Education Committee and Advocacy Committee, etc. Among them, I spent most time in Candidate Services, serving as a study group leader, where I assisted in guiding candidates to pass their CFA exams and helped them attain their Charters. I am the chair for the Candidate Services Committee; I have held many rounds of study groups already.

There is a story that I can remember vividly. It is about a candidate who had tried hard but failed the CFA Level II exam twice already, and who was entirely deflated and discouraged. Yet he decided to try for a third and final time. He came to our study group for the first time, seeking for assistance. With the guidance of our study group leaders and the encouragement of other candidates in the study group, through the concerted efforts, ours and his, of course, he was finally able to pass the exam. He has now attained the CFA charter and further progressed in his career in finance. It is indeed a very encouraging story, and one of the key reasons why I do think that the Candidate Service Committee is very important, as it is the first impression of the Society for our candidates and a key way to connect us with our future CFA members.

Recently, I stepped up as a Director of the Society. I am glad to see the Society thrive through the ups and downs in the past three decades and emerge as one of the leading investment professional bodies in Hong Kong and Asia. It is also great to see the CFA curriculum expanding to incorporate lessons learnt from the GFC, Blockchain/ Web3 technologies and implications to the investment world—it is truly an ever-evolving institution that fits all different eras.

CFA Society Hong Kong is on course to celebrate its 30th anniversary of continuously supporting candidates and providing members with a platform to establish the relevant networks in pursuit of their career planning and development. Ultimately, it will help members move further and fulfil their career goals.

3.6
The Redivivus

— Agnes K. Y. Tai

When the Fastest Bird Met the Fiercest Storm, There Was Nowhere to Turn

It was 12 January 1998. Peregrine Investment Holdings Limited, the pre-eminent indigenous Asian investment bank in Hong Kong, announced bankruptcy. The listed group's shares were suspended on 7 January, after failing to secure a white knight to provide less than USD 100 million in liquidity.

It was an historic moment, as much as the day in September 1988 when the group was established with an initial capital of USD 38 million by former Citibank investment bankers Francis Leung and Philip Tose, and the day when Peregrine's market capitalization reached HKD 10 billion (USD 1.282 billion). The vision was to be the Goldman Sachs, Morgan Stanley or Merrill Lynch of China, with Hong Kong being a Special Administration Region since July 1997.

Respectfully called "The Father of Red Chips," Leung brought nearly 50 red chips and H-shares to IPO in the local bourse. The underwriting business was cut-throat. The ability to take so many deals away from the dominant investment banks was rooted upon his acumen in dealmaking, backing from local tycoons, and relentless hard work of his team. There was during a long weekend when I (a co-founding director of the asset management business) stayed in the office to write my first ever Chinese book on H-shares, and witnessed the Corporate Finance team sleeping on the floor, eating instant noodles in front of their computers, and, with toothbrush in hand, walking to the restroom in the mornings, while Leung would be on the road four to five days a week. That was the norm for years, when everyone in the group was driven by passion, constantly excited by new developments, astronomical progress, and the astounding achievements of a young company.

Corporate finance, brokerage, derivatives, asset management, and forex were scaling new heights, and were highly profitable. Peregrine launched the first SFC-approved unit trust fund in 1993 with a strategy that deployed OTC and listed derivatives in Asia ex-Japan equities. The Derivatives arm was a pioneer in the issuance of listed company warrants in Hong Kong, and the first Hang Seng Index warrant was offered for trading on the Hong Kong Stock Exchange to retail investors in 1994.

The fixed income desk was established with highfliers recruited from U.S. investment banks. Bonds were deemed a relatively safe asset class. But not when risk limits were exceeded in underwriting an Indonesian cab company's (Steady Safe) bonds for up to half of Peregrine's capital. The Asian Financial Crisis officially began in July 1997 in Thailand and spread rapidly. Asian currencies were battered, and Hong Kong had to defend her USD/ HKD peg, established in 1983, against fierce attacks. On 23 October 1997—"Black Thursday"—the overnight Hong Kong Interbank Offered Rate (HIBOR) went through the roof and reached nearly 300%.

The fall of the Indonesian taxi firm and depreciation of the Indonesian rupiah (repayment currency) ended one of Hong Kong's biggest success stories. Globally, 1,700 Peregrine employees were out of a job. Shock, sadness, and scrutiny were overwhelming. To date, Peregrine alumni are still connected by the comradely spirit of being members of a firm that was fast, innovative, profitable, and serving both corporates and the investment community well.

1998 saw a series of failures in smaller local brokerage firms, the Hang Seng Index fell 60% by September compared with its peak 13 months earlier; the Hong Kong property market fell more than 40% from the October 1997 peak; the economy shrank 5.1% YOY; the unemployment rate shot up from 2.5% in 1997 to 5.7%; and business bankruptcies nearly doubled.

In an unprecedented move, the Hong Kong Monetary Authority (HKMA) intervened in the Hong Kong stock market from 14 August 1998 for ten trading days. By 28 August 1998, the HKMA had established a local stock portfolio held by the Exchange Fund. Hong Kong officially abandoned the free market principle, which was not appreciated until 2008 when the Global Financial Crisis hit.

Hong Kong came back stronger, having survived the horrific SARS epidemic in 2003, to see the Hang Seng Index hit over 32,000, 20 years after Peregrine's fatal month. Market capitalization per capita hit an all-time high of 17.7x in 2020, and GDP reached USD 368.14 billion in 2021, while the unemployment rate hovered below 3% until 2019 when the COVID-19 pandemic began to drive it up.

The comeback story is one that is solidly grounded upon our "Lion Rock spirit," that of perseverance and solidarity. We create miracles and don't give up. Together we will strive, not merely survive. It is this remarkable spirit that has propelled Hong Kong from a small fishing village with minimal resources to a vibrant city, a major financial hub, and the designated green finance center of China's Greater Bay Area.

Another Global Crisis Was Brewing Long Before the AFC Loomed

Climate change will cause potential global systemic risks, economically and socially. It has been a crisis quietly creeping up for decades. Horrific extreme weather events in many parts of the world—Pakistan being hit the hardest—in the summer of 2022 are warning signs that the climate planetary boundary is close to reaching its tipping point. Flash floods sweeping away infrastructure, houses, and people can induce huge insurance claims and cause future premiums to rise, if coverage is available at all. Decarbonization is our single option to mitigate future physical and transition climate risks, and inaction can build up astronomical costs for the decades to come.

As a dense, vertically-built, city with almost nil agriculture, husbandry, or natural resources, Hong Kong relies almost totally on imports for necessities, such as water, food, and medical supplies. The Dongjiang River, which supplies 75% of our city's freshwater needs, is drying up, just as most of the world is suffering from drought. The Dongjiang serves various municipalities of Guangdong province. Hong Kong residents get inexpensive water bills that are heavily subsidized. Most won't think twice about taking long showers, leaving the tap on while shaving or brushing their teeth, and pouring away drinking water.

Without water, farms won't produce enough crops to feed a growing population; power plants can't be cooled; hydropower stations can't produce electricity; semiconductor manufacturing will slow down. Meanwhile, sea level rises due to fast-melting glaciers coupled with storm surges could put many of the coastal areas of our city under water. This means that much of MTR's Hong Kong Island line and parts of those on Kowloon side won't be able to run. Heatwaves can halt outdoor work and activities, which could delay housing projects and urban development.

What can a tiny dot on the globe like Hong Kong do to help contain global warming to 2°C, if not 1.5°C by 2100? In a race to act responsibly, the local financial market is being empowered to support the city's Climate Action Plan 2050. The plan allows Hong Kong to achieve net-zero energy generation by 2050. This aligns with China's 2030 peak carbon and 2060 carbon neutrality targets, which in China these days has the combined acronym of "3060."

Under the Climate Bonds Initiative (CBI), Hong Kong issued USD 14 billion in Green and Sustainable (GGS) debt in 2021, where green (by CBI's definition) issuance was USD 10.4 billion, up four times YOY growth. Cumulative green issuance reached USD 20 billion. In addition, many of China's USD 200 billion green bonds (by CBI definition) have been arranged via Hong Kong. Remarkably, Hong Kong supplied 5.18% of the global GGS+ (Green, Social, Sustainability, Sustainability-linked and Transition) debt issuance in 2021.

The Green and Sustainable Finance Cross-Agency Steering Group (CASG) was co-initiated by the Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) of Hong Kong on 5 May 2020.

The Centre for Green and Sustainable Finance is a cross-sector platform launched by the CASG to coordinate efforts of financial regulators, government agencies, industry stakeholders, and academia in capacity building and policy development.

The HKEX launched the Sustainable and Green Exchange (STAGE), the first platform in Asia that lists sustainable and green financial products to facilitate collaboration across the financial industry, in December 2020. After signing a Memorandum of Understanding with the Guangzhou-based China Emissions Exchange (CEEX) in August 2021, HKEX launched the Hong Kong International Carbon Market Council (the Council) in July 2022 to explore regional opportunities in carbon finance.

The SFC, HKMA, and HKEX are all members of the Glasgow Financial Alliance for Net Zero (GFANZ), as part of Hong Kong's ongoing commitment to the long-term sustainable development of global financial markets.

They play crucial roles in channeling capital towards companies and projects committed to greenhouse gas emissions reduction (decarbonization) in support of a low carbon economy. Capital is fuel for growth; without or with limited access to it, the cost of capital will rise, hampering, and sustainability will be compromised. Yet, with increasing demand for "green" investments, decarbonization of portfolios, and better corporate environmental performance, the chances of "greenwashing" tend to increase.

Given time, greenwashing by companies or investors is expected to abate, with increasing transparency demanded from regulators and clients. The

SFC has increased ESG reporting requirements effective 2022 by fund managers who offer collective scheme funds labelled ESG or green—both at the firm and funds level. The HKEX has raised ESG disclosures requirements, including TCFD being compulsory for relevant sectors by 2025, offered its online ESG Academy in 2021 free, and consulted around ISSB exposure drafts that could become a world sustainability accounting standard in 2024. Meanwhile, CFA Institute has also constructed a useful program under the “Certificate in ESG Investing” for investment professionals.

Hong Kong Faces a Talent Crisis Amid Climate Risks and the Pandemic

The demand for sustainability professionals in asset management, corporates, audit and assurance, legal, regulators, service providers and NGOs has been increasing rapidly over the past three years. The shortage of seasoned experts from boards to operations is felt around the world. PwC announced in mid-2021 plans to hire 100,000 people over five years globally to beef up ESG capabilities.

While training can help alleviate this issue, talents departing from their various functionalities from Hong Kong in the past two years has become a concern, and is expected to continue. Hong Kong’s vibrancy and significance as an effective East-West bridge hinges upon the ability to attract and retain international talent.

Migration waves happened in Hong Kong before 1997, around the AFC and the SARS epidemic. After obtaining their overseas residency, many have returned, while talents from other countries including China came to fill the other gaps.

It doesn't look the same this round. By mid-2022 and at the time of writing, Hong Kong had a net outflow of 113,200 residents. Non-Chinese who were born in Hong Kong and those who have lived here for more than ten, even 20 years, uprooted and went abroad. Many locals who exited are middle-income skilled persons, with the exodus of teachers and medical personnel reaching a crisis level.

Three main motivations stood out among those who told me why they left: (1) perception of lack of freedom (after the National Security Law was passed on 30 June 2020), (2) better education for the children elsewhere, and (3) more affordable, spacious housing abroad. Those holding foreign residencies opted to leave even when holding a relatively stable, well-paid job in Hong Kong, as they were concerned about declining assurance of an unhindered level business playing field.

As with dire times during SARS, high trust in HKSAR government and the confidence that Hong Kong will bloom again need to be restored quickly to stem the exodus of talents. Our city cannot thrive on a successful finance pillar alone. Relevant education and skills training to provide jobs that support the broader economy become ever so essential. The apprentice training programs offered by HAECO and MTR are some examples of how the younger generation can secure a better livelihood and contribute to a brighter future in the city they can proudly call home.

Hong Kong is well positioned as an excellent "springboard" between China and the rest of the world when finance and other talents remain on board to secure a vibrant future. We can rise from any crisis when we work in unison under the Lion Rock spirit.

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Wakeup Call or a Lost Future?

— **Simon Saputra**

As Hong Kong marks its 25th Anniversary of returning to China this year, I was told that the future of this city which I have called home for the last 25 years is as gloomy as the weather during the recently celebrated 1st of July, which coincided with the arrival of a number 8 tropical storm. Apart from those written in Chinese, all major financial publications continue to remind its readers that Hong Kong has become yet another city in mainland China. With residents living under constant surveillance and diminished freedoms due to the newly enacted National Security Law.

Perhaps due to the past two years of strict COVID-19 restrictions coupled with poor returns from the stock market, I have met some seasoned finance professionals who have all but given up and are convinced that the previous ways of living in Hong Kong are over. They have even professed that Hong Kong was a better place with relatively more freedom during the British colonial days. While some British politicians would very much agree with this sentiment, history says otherwise for a colonial city which was always run by an appointed (not elected) British Governor. Perhaps such misguided memories are common for those who have had the privilege of benefiting from the early days of the opening of China and now struggle with a more competitive world. Those who could never stop glossing over days of past glory, perhaps?

Having spent my entire career of almost 30 years in the financial industry, I am far from being a political or social expert. This article is certainly not meant to articulate the history and the future political outlook of Hong Kong, but as an effort to remind oneself what has made Hong Kong so successful in surviving crisis after crisis, and even thriving from them. I have personally witnessed this during these 25 years. This city and the Hong Kong people have continued to astonish me with their energy and unfaltering attitudes. Hong Kong miraculously escaped relatively unscathed through numerous financial and health crises from the 1998 Asia Financial Crisis (AFC), the year 2000 burst of the Dotcom Bubble, the year 2003 SARS crisis (SARS), the 2007 Global Financial Crisis (GFC), the 2019 Anti-Extradition Law Amendment Bill Movement (AEM), and the present day—the seemingly never-ending COVID-19 pandemic.

During each and every one of these crises, I have come to admire the resilience and discipline of the population of this city. Never once during any of the above crises (with the exception of 2019 AEM), was there any public disturbance, electrical black-out or water suspension. As someone who was born in Indonesia during the early turbulent days, I was prepared for all these possibilities. Perhaps just as a habit from my youth, I always keep a good stock of rice, instant noodles, and candles at home, and above all, a torch by the side of the bed. When I was young, experiencing regular power cuts meant the torch was an essential item. Hong Kong residents enjoy the luxury of world class infrastructure, one of the fastest internet speeds globally, almost seamless connections to the global world with China just next door, and of course a wide array of culinary delights. This is a city where during the night, the neon lights are brighter than the stars. Perhaps not one of the strengths of Hong Kong, as Hong Kong can be too bright to have a good night's sleep, something my father once joked about during a visit to the city.

Money Over Love—A Classic Hong Kong "Strength"

So, has Hong Kong really lost its allure as the preferred place in Asia for doing business, and have those working in the financial industry, one of the most important pillars of the Hong Kong economy, left in droves? Unfortunately, the current answers to both questions are an affirmative yes, BUT not for the simplistic reasons used by much of the media aimed at boosting their numbers of readers. The more relevant questions will be, can Hong Kong emerge from these losses and become an even more sophisticated city? Are Hong Kong's glory days really over, and have other Asian cities such as Singapore or Tokyo replaced Hong Kong? There is concrete evidence that money has been flowing out from Hong Kong, and I have even seen apolitical friends leave HK for good. Are we seeing a total loss of confidence in Hong Kong or this is just a short term "frustration-induced" escape from relentless bad news under dysfunctional Hong Kong administrators?

Though I only started working in Hong Kong in early 1997, I made numerous business trips and holidays to this city prior to my permanent posting. For me, in those early days, Hong Kong was the New York of Asia, a melting pot and deep pool of ambitious multicultural talents who would work hard to earn their first million in a city where everything is possible. When many parts of Asia were saddled with corrupted governments, inefficient bureaucrats, shadowy tax and legal structures, unstable banking systems and poor infrastructure, Hong Kong stood out as a city which fulfilled all the right criteria to become Asia's business hub for almost every major global business group.

Fast forwarding to today, let us analyze and make an honest re-assessment on whether the Hong Kong of today has lost all those key ingredients which made pre-1997 Hong Kong an irresistible city to be based in. Other than the fact that it has effectively been under full control of China for the last 25 years, frankly nothing has really changed. Hong Kong still possesses the enviable qualities of a clean efficient government, simple tax structure, robust legal system, world-class infrastructure, a well-capitalized banking system, and highly educated, productive labour force. So, if those arguments that Hong Kong has really lost it and is worse off than before are to be considered, perhaps it would only be fair if one also came up with fair comparative assessments of other cities in Asia, for how much they have improved when compared to Hong Kong?

We have seen quite a few Asian countries which probably have done better nowadays in terms of their infrastructure built-up, but with all due respect, have fared worse than their pre-1997 state with weaker currencies and degrading political systems. Hong Kong (and its residents) should be proud that, despite not being perfect, it has not really gone astray. Though some may disagree, it is an undeniable fact that Hong Kong has China to thank for having survived, grown and prospered for the last 25 years. With the latest statistics showing China has become the largest trading partner for every country in Asia, it would be naive, perhaps a tad emotional, for those who have decided to settle abroad in the name of more freedom and democracy, instead of helping the nation to better prosperity. Perhaps Hong Kongers are just too practical to remember the famous quote from John F. Kennedy, “Ask not what your country can do for you – ask what you can do for your country.”.

China Unbefitting Rich "Communist"?

When I was young in Indonesia, I remembered that two months before every Chinese New Year my mother would start packing some candies, biscuits, canned foods and clothing (mostly thick jackets and some batik clothing) to send over to my aunties who lived in China. I was told that my aunties and their young family were poor, most Chinese were starving and had little to wear during the winter. In those days, though our family was just a normal middle-class family, we always had plenty to eat on the dinner table and as a young boy, I was grateful that I was not living in China. These impressions were confirmed when I made my first visit to China in 1995, by taking a 14-hour bus ride from Hong Kong to my grandfather's home town in Shantou, Guangdong province.

Fast forward 27 years later … to my latest Christmas trip in 2019 to Shanghai with my own family. It took us only eight hours to traverse the 2,000 km distance by high-speed train directly from Hong Kong. The speed at which China has been progressing may have unintentionally made other countries appear to be "frozen in time." The last train I took from Jakarta to Bandung in Indonesia during my last trip in 2018, was a long three hours for the less than 200 km journey—exactly as long as it took in 1995. Even the much richer Australian, still must spend 11 hours on a XPT train ride from Sydney to Melbourne for half of the distance of HK-Shanghai route and most still think China is backwater country. On my last trip to Sydney in 2017, while visiting my old university, I found the city I once loved is creaking at the seams, with poor infrastructure, suburbs filled with roads covered in potholes, never-ending traffic and a terribly inconvenient inner city train system. Luckily Sydney is blessed with its beautiful harbor, and perhaps it can learn a thing or two from Shenzhen on the use of technology and better use of resources in managing the city back to its old glory.

China as a country has done something which no other country in the world has ever accomplished in a short span of 25 years. China, just like any other country in the world, is certainly not perfect, but it is evolving to be better. From my own personal experience and from my youth, I was told that Communism is evil, while democracy is good – without being properly told that those are just two different political systems (very much like iOS and Android nowadays). For that reason, many have continued admonishing China which adopted the Communist political system as a non-democratic autocratic country. But looking at the history book, has no one ever realized that China possibly had no choice at that time, but to take this path to save the country from breaking up?

China, with its 5,000 years of civilization and long lineage of different dynasties, only adopted the Communist political system for the last 100 years. Isn't it a bit premature and arrogant to dismiss the benefits of a country's political system by which its political leaders have successfully lifted 800 million of its people out of poverty? Perhaps one day, China may decide to drop the official word Communist from its political organization—it is only a name after all, and if you have been to China, the business world is much more capitalist than many other Asian countries. One of my good friends from India jokingly said that perhaps the reason India has been lagging China in economic growth, is due to excessive democracy and freedom (to have too many babies). But joking aside, both China and India with their different political system are working hard to improve the livelihoods of their people—this is the shared goal of every nation. China may have started earlier than India, in terms of economic reform and hence the current difference in GDP size, but I am very sure that China is very much looking forward to the era where India and China will be the two largest economies in the world again. India has demographic assets which China and Japan are both struggling to maintain.

A Struggle to Fit In

The World Bank stated that in the year 2000, China GDP per capita at USD 10,500 was less than 20% of U.S. GDP per capita of USD 63,500 but based on the Chinese government definition, there are now more than 800 million Chinese who are considered middle class. Those are earning between RMB 60,000 to RMB 500,000 (USD 7,250 to USD 62,500) annually. While there are concerns that China's economy may slow down, it is still growing, and those middle-class income earners have a shared dream of moving up the income ladder. Similar to Japan and the U.S., China is acutely aware that the only way to avoid the middle income trap is to continue innovating through proper investment in R&D, improving productivity, and the skill set of its workforce, while providing stable abundant raw material. China is already a global leader in many advanced technologies, from Electric Vehicle manufacturing, Artificial Intelligence (AI), rare earth and precious metal processing to telecommunication & finance technology (Fintech). China is now the world biggest publisher of research papers, and the latest report by Georgetown University's Centre for Security and Emerging Technology (CSET) in the U.S. released in August last year said that currently Chinese universities graduate roughly three STEM PhDs for every two graduated by U.S. universities each year. By 2025, the report predicts that China will produce roughly twice as many STEM PhDs as the U.S.

So, with China continues testing new barriers and its citizens pushing hard to improve their life even better, does Hong Kong have a role to play? China has Shenzhen as its Silicon Valley, Shanghai as its financial center, and there continue to be new technology innovation hubs in other cities across China. With Hong Kong's heavy reliance on financial services, the more relevant question will be, what does the future hold for Hong Kong finance professionals, and similar to how any typical equity investors will question their investment in these circumstances, the question is, "Should one be cutting losses on Hong Kong or double up with the strong conviction that it will emerge from crisis to be a successful and even more resilient city?"

The answer to the above questions, may depend on who you ask. It is an undeniable fact that there are increasing number of mainland Chinese finance professionals in the industry now, and Hong Kong has remained their top choice, even more so after the recent Shanghai lockdown. The local Hong Kong educated may be less sanguine in their answers as their privilege of being native yet with less proficiency in Putonghua or ignorance of China, may put them at disadvantage when most new funds are managed by mainland Chinese. But irrespective of their answers, the truth is that qualification, working attitudes and professionalism matter more—when it comes to climbing a tall career ladder.

Looking around, there are still good numbers of financial professional expatriates working in Hong Kong, and they come from everywhere. One observation I've made, is that all of them are adapting and adjusting to the emergence of China as Asia's superpower, in order to survive and stay relevant. Some even went as far as learning Chinese or enrolling in EMBA classes taught in China. Unfortunately, the push factor from local Hong Kong residents towards the increasing demand for those who understand mainland Chinese working culture has become increasingly unhealthy. Hong Kongers who have in the past been arguably better educated with more exposure to international dealing have been increasingly left out from those high-paying jobs. When I managed our firm's Equity Capital Market (ECM) team between 2008-11, only 20% of the syndicate members were Chinese and the main discussion was conducted in English. With many more Chinese mega-IPOs coming to Hong Kong and strong relationship could be determining factor in winning deals, it is a norm now that most discussions are in Chinese and the majority of ECM heads of Bulge Bracket firms are mainland Chinese. Some headhunters were telling me that the chances for any expatriate without Chinese language ability to get a job in Hong Kong is almost close to zero.

But isn't this a natural positive development and a good sign that Hong Kong has a crucial role as China's international financial center? I was once told that China's top 200 companies would like to set up their international office in Hong Kong and they would like to own buildings named after them. Hong Kong may lack a supply of office space if that really happens. Of course, over the last few years China's policy deregulation and current property sector liquidity crisis has delayed the entire process. But in the future, I would not be surprised to see buildings in Hong Kong named Petro China Tower or Byte Dance Centre.

Mind Games and the World Is Your Oyster

Despite China's major economic leap over the last 30 years, it is still a developing country when it comes to the level of sophistication seen in the developed world. The soft skills in communication, presentation, public relationship management, marketing and business diplomacy continue to be lacking. This is understandable, as even South Korea and Japan went through that learning process, and China is learning fast. The Western-educated Chinese who return to work in China (Chinese called them "Hai Gui" or sea turtles) have played important roles in transforming China's innovation and working culture. With so many potential opportunities and the fact that China needs help in improving her image, I can see no reason why Hong Kongers with their unique identity, established international exposure and experiences in going through crises, should not grab this once-in-a-lifetime opportunity. So, my personal advice to my fellow finance professionals who may be on the verge of "giving up," please do yourself a favour. Instead of inflaming oneself with unhealthy thoughts that "someone is stealing my job" or "their working culture is unacceptable," drop the sense of superiority and be humble by trying to understand their needs and shortcomings. In Indonesia, we have this term called "Orang Kaya Baru: OKB" which is to depict those who just recently made it rich and their incessant need to show off their newfound wealth or power. Many Chinese may be OKB now, which can be a nuisance to watch, but in times to come, they will all just become savvy and refined, as good as aged wine.

For me and many of those around me, Hong Kong continues to offer unparalleled advantages over many global cities and increasingly unique complementary roles for established China mega cities from Beijing, Shanghai, Shenzhen to newly emerged Chinese metropolis such as Chengdu and Xian. Hong Kong infrastructure and its unbeatable physical world class access to China, make it a super conduit for tapping into China growing appetite for almost everything from wealth management, consumer goods, education, health to leisure travel. Many have quickly dismissed the idea of Hong Kong playing a major role in the Greater Bay Area (GBA) economic integration plan, seeing it as pure propaganda or even a ploy to appease those young Hongkongers who are about to lose hope of making it in this city. Just to state the fact, with a population of 90 million, GBA hosts the three top containers ports in the world and five international airports (HK, Guangzhou, Shenzhen, Macau & Zhuhai). My recent experience in travelling from Singapore to Johor Bahru in Malaysia or crossing the European borders or counting the time needed to shuffle between Hanoi & Ho Chi Minh, has further convinced me that China makes better plans than many and for this simple reason, GBA is going to work.

I will leave you with this quote from Singapore's founding father, Mr. Lee Kuan Yew, who once said, "If I had to shoot 200,000 students to save China from another 100 years of disorder, so be it!" I am fairly certain that with how far China has come now, this was history from a dark time which will never be repeated. Using 2019 data from the World Bank, China's GDP size of USD 14.3 trillion was already almost three times larger than Japan (at USD 5.1 trillion) and five times the combined size of ten ASEAN countries (at USD 3.2 trillion). China will fight hard to keep its hard-earned success. No one in Asia would want to see China failing, and it is only to their advantage that they grow prosperous hand in hand.

For those of you who continue to harbor the thoughts that Hong Kong has lost the plot and freedom is diminishing, I encourage you to make a short detour to those places which you think suits your preference, BUT with an open heart that Hong Kong will always welcome you back and there is no shame in returning. Let me once again quote Mr. Lee Kuan Yew, who said, "You begin your journey not knowing where it will take you. You have plans, you have dreams, but every now and again you have to take uncharted roads." It is saddening to see those who were born here, could so easily decide to abandon the city which has given them so much, while someone like me who was not born in Hong Kong, has tried hard but sometimes in vain, to convince them that Hong Kong will continue to be a place which will rise from crises. Mahatma Gandhi once said, "A man is but a product of his thoughts. What he thinks he becomes."

ADD OIL HONG KONG!

This is the end of the ebook.