

## Making Millions

The reversion of Hong Kong to Chinese sovereignty was never a matter of doubt during and immediately after World War II. The geopolitical development of the Cold War, however, introduced a complication and gave rise to some wishful thinking. But its return remained only a question of “when” rather than “if”.

Naturally, many of the 5.2 million who lived in that politically mixed society were eager to see the humiliation of “unequal treaties” being finally confined to the dustbin of history. The waiting was frustrating for them.

But they recognised that there were among them many affiliated to the defeated Kuomintang as well. They had been stuck in the colony, unable to flee or seek refuge in the still un-relinquished Taiwan or elsewhere. Intermixed with them were also possibly approximately 50,000 members of triad and other criminal societies, with their respective families. Those people could not help remembering what befell their kind after the Communists had taken over in Shanghai, Canton and in the other major cities of the mainland. They therefore were not displeased with being left in a political limbo for a while longer.

In a surprising phenomenon near the start of Sino-British negotiations, however, a substantial group of expatriate civil servants—who had claimed to have been administering the colonial government effectively for decades—suddenly voiced a roundabout declaration of no confidence over the prospect of a city under the Chinese.

They made an unbecoming gesture by petitioning the United Kingdom government to guarantee the due payment of their pensions should Hong Kong ever run into financial trouble in the future! Their first loyalty to themselves was thus made evident. The United Kingdom, for reasons both of principle and of costs, naturally rejected their petition.

I should have thought that such a sentiment of no confidence might have led to an acceleration in the number of foreigners fleeing the city for more salubrious locations elsewhere. But instead, the opposite resulted. There was a fresh and curious increase in foreigners. The growth in non-Chinese inhabitants in fact climbed steadily, from a mere two per cent of the population to roughly eight per cent today.

It was possible that foreign chancers, ponzi schemers, vulture capitalists, spies, turncoats, provocateurs and people of that ilk had smelt opportunities and had flocked to the city for a slice of the pie. Its normally soft approach to recreational drugs, sexual orientations and other liberated lifestyles might have also provided a lure. Likewise, its growing prosperity

leading to an insatiable demand for more overseas domestic workers.

The spies and foreign agents who began gathering there were not always adequately disguised as academics, journalists, publishers, missionaries or whatever. Indeed, American agents could often count on their so-called “Five Eyes” group intelligence co-conspirators to assist them in spying operations against China.

For example, the colonial Immigration Department provided American operatives with ready access to Chinese refugees to collect intelligence on the particular units of People’s Liberation Army stationed at or near their former homes.

Caught up in that same prospect for change would be many sub-groups of ordinary apolitical Chinese, mainly concerned with their bowls of rice, the educational future of their children and how to turn whatever assets they might possess into ready cash.

Those with the means, skills or connections to move to a more stable place would no doubt be those forming queues for visas outside consulates-general and Commonwealth high commissions.

Trapped in a similar bind would be the more faint-hearted corporate executives who had hitherto benefitted their firms and themselves from the exploitative nature of the local free market system. They now had to hedge their bets by moving their registered headquarters to more distant locations.

Therefore, when the Sino-British negotiations began in 1982, they started against a background of mistrust and volatility. That ensured that each minor hiccup affecting either side would be leaked, circulated and exaggerated. Rumours would be embellished out of all proportion and passed on to the under-informed masses as gospel truths.

Thus a slip from the lip of the British Foreign Secretary, for instance, using the word “bleak” to assess his perception of the talks, naturally sent panic circulating through society as quickly as a contagious virus. Such a slip did in fact occur. Confidence — that virtual lifeblood of any truly open capitalistic society — just sapped away with that word, with most listeners not giving the story more analysis beyond their own inclinations towards fear or flight.

Of course, whatever was “bleak” had to be a very subjective assessment, depending upon a certain point of view. If one side’s expectations and arguments were sent flying like skittles, that might indeed appear quite bleak for that side. But that might not be necessarily so from the point of view of people with a different political persuasion. It might

even be a cause for celebration!

Likewise, for Mrs. Margaret Thatcher to stumble on the steps of the Great Hall of the People during negotiations sent geomancers and “fung shui” masters into interpreting frenzies, as to what that misstep really portended for the two nations. Out of such frivolous stuff was history often created.

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The Hong Kong dollar had a rather convoluted history. Because of the dearth of Mexican silver dollars at a certain point in time, it first got minted around 1895 in Calcutta and Bombay, for use in settling trading accounts in Hong Kong and in the Straits Settlements.

In 1866, a local mint was actually set up in Causeway Bay to mint dollars and half-dollars. But the Chinese did not take to that local coinage, so the mint was closed down a couple of years later. In 1906, however, the Straits Settlements began issuing its own dollar, fixing it at two shillings and four pence against sterling.

But Hong Kong remained on the silver standard till 1935, before it introduced a crawling peg of between 15.36 to 16.45 dollars to one pound sterling. This turned into a fixed peg of 16 dollars to one pound sterling in 1939.

The devaluation of sterling in 1967, however, necessitated an adjustment and it subsequently became pegged to the rate of 5.65 dollars for one American dollar in 1972. But it soon strengthened to 5.085 for an American dollar the following year, forcing the exchange to be allowed to float within a specified currency band instead.

The strength of any currency was normally influenced by a range of political and economic factors, like the stability of the government, the level of public spending, GDP growth, the inflation rate, the state of unemployment and so forth.

In Hong Kong, public spending increased sharply after Sir Murray MacLehose took over as governor in 1971. Because he had been left with bulging coffers, he announced all sorts of populist measures. The local inflation rate rose significantly as a result, rising from 2.7% in 1975 to 15.5% in 1980. Overhanging everything was the unresolved timing for settling the political future of the city.

Although the Hong Kong dollar was backed by an Exchange Fund with one of the largest reserves in the world and was at the same time one of the most traded currencies, especially in neighbouring cities like Macau, rumours, speculations and day dreams frequently stirred uncertainty and caused fluctuations in value. The fact that the city had no exchange control mechanism to regulate the flow of funds added to volatility and likewise its attractiveness for money launderers. It also allowed those clever speculators with an eye on quick killings to enter the picture.

It would not be beyond the bounds of imagination for a few winks and nods to be given to some of the financial parasites and speculative agents inhabiting the City of London Square Mile by those intent upon testing the stated Chinese position.

Always choosing sovereignty over prosperity and stability might sound very well for political leaders. It appealed to national solidarity. But in the neoliberal order of things, chancers and cynics could easily be found who were adamant that, in the final crunch, money would always come out ahead of something as nebulous as national pride.

It would be consistent with British strategy too, to demonstrate to the Chinese beforehand that, without sure-handed British administrators in charge, things could swiftly go awry.

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Meanwhile, the adherents of opposing philosophies and beliefs were playing themselves out within the rudimentary framework of the so-called free market system in the colony.

In 1981, the Hong Kong dollar was being traded at around 5.13 to the American dollar. But it soon started to ease as alarming forebodings for one part of the population gained momentum. Those rumours also affected stock market prices.

Once the Sino-British negotiations were joined in September of 1982, alarmist stories multiplied. Big speculators also entered the market. With every scare story of an impasse in the negotiations, the value of the Hong Kong dollar took a hit, stoking fear or greed in some.

I normally paid scant attention to economic forecasts. Such forecasters were largely ignorant of the real economic interconnections within the city and their wider geopolitical setting. Or else they tended to extrapolate from just one set of published statistics or some unusually

narrow base.

But I supposed the city's proud tradition of freedom of speech also meant that people had the freedom to spread a lot of lies and nonsense. I placed their creditability on about the same level as those sports forecasters who pronounced the likely racing results of each race before every meeting. At least I knew from empirical knowledge that the predictions, where my own horses were concerned, were seldom right.

However, when the exchange jumped above 8.65 to an American dollar in September of 1982, I made a beeline for the office of Victor Fung at Fung House in Connaught Road Central. I wanted to discuss with him my thoughts on the speculative bubble gaining traction. If it went too far, it would endanger both trading activities and the real economy.

My view was that as Li & Fung was a publicly listed company, it should play its own modest role against the madness of fear and greed in society, especially during a difficult period of transition. The company did a lot of business in American dollars and it was cash rich besides. By releasing its American dollar earnings steadily onto the market, it could set an example for other responsible corporations to follow.

When I met Victor Fung, however, I was horrified to discover that he had actually been fuelling the panic.

"I have ordered the company's Financial Controller to convert everything into American dollars," Victor Fung said, even before I could get into my narrative. "I've been talking to some banker friends and they assured me they viewed the Hong Kong dollar would eventually weaken to 12 to one American dollar. So I am acting for the good of the company"

"Utter rubbish!" I exclaimed, possibly out of anger that he should have left me out of so important a corporate decision. And then, I quickly regained my self-control and bit my tongue.

I did not know what kind of banker friends he had been talking to. I was doubtful they were the same sober local kind whom I knew. His banking cohorts were in all probability of the same ilk as himself, people who had gone through the usual business school drill of studying the histories of corporate giants like General Electric and IBM, learning the endemic nature of cooking business books in Japan and following how greenmailers and asset strippers had made their malignant presence felt on Wall Street.

But knowing the names of the various parts of a machine was not good enough for a machine could often become more than the sum of its

parts. And knowing too many machine parts could lead to a system where a machine could not function at all or only with unforeseeable flaws.

It was not good enough, for example, for a student of Adam Smith just to be able to cite a few trite quotes from *The Wealth of Nations* without also having absorbed some of the ideas in Smith's earlier and more important work *The Theory of Moral Sentiments*. So far as the underlying and complex realities of Hong Kong were concerned, the banking friends of Victor were likely not to know enough.

Victor himself had a doctorate from Harvard and I was not disposed to wasting my breath arguing with him over a *fait accompli*.

Moreover, I did not know when he had given the order to accumulate American dollars. If he had done so early enough, when the American dollar was in the six to one range, the company might well be sitting on a substantial exchange gain if he liquidated the present holdings immediately. But if he had kept on buying at the present level, on the expectation of the local dollar would fall to the 12 to one range, he could be heading for serious trouble.

It seemed to me that Victor was being carried away by the temporary mania affecting the entire city and was becoming oblivious to the fact that the government must also be reflecting on the spreading chaos in the market. The Chinese, too, must be viewing the situation with concern. The hard currency earned through Hong Kong was vital to the country's whole modernising programme. No doubt backchannel communications with Hong Kong authorities were already taking place.

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The Hong Kong strategist running with the ball was Sir John Bembridge, the colony's Financial Secretary. He was in fact the first financial secretary to be appointed who had not risen from within the ranks of the civil service. I had known him well for a number of years, when he was in the private sector, as the Chairman of Cathay Pacific, and when I was responsible for civil aviation negotiations on behalf of the Hong Kong government.

Sir John was a buff but very level-headed and straight-talking individual. He had solid integrity written all over him and not the slightest hint of flamboyance. In tackling the monetary turbulence he would surely be inclined to take his own time and study all the implications, including

those secret files of old containing the analysis of Sir John Cowperthwaite, one of his most celebrated predecessors, on the pros and cons of employing different types of monetary regimes. Cowperthwaite had been the economic genius who had suddenly to face, at the eleventh hour, the devaluation of sterling.

I felt confident that Bemridge would contain the market madness in whatever form he thought appropriate, perhaps by linking the local dollar again at a fresh level to the widely dominant American one. It would be imprudent to seek to restore the old level before the crisis erupted. A new peg with due allowance for a modest devaluation, at possibly around the mid-seven dollar to one range, would not be unreasonable.

I had not the slightest inclination towards delivering a dissertation about all that lengthy background to someone with a doctorate from Harvard. Let him soak up tall tales and imagine he knew what he was doing. He had made his own bed without consulting me, and he should jolly well now lie in it.

So I left his office by declaring emphatically: "I dissociate myself completely from your decision to convert the company's resources out of the Hong Kong dollar."

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As I left Fung House, I still felt somewhat marked by Victor's discourtesy in not consulting me before making an important company decision. Although he was the chairman of Li & Fung (Trading), I was also its managing director.

I was not exactly sure why, but I walked almost automatically around the block to my bank at Des Voeux Road Central. Perhaps I felt that Victor had made such a bad decision that I, as an individual, was going to show him in some concrete way that he had been wrong and disrespectful in ignoring me.

I had opened an account at the bank in 1961 when I first entered the Hong Kong civil service. At that time, the bank was known as the Hong Kong Chinese Bank and its chairman had been Sir Sik-Nin Chau, who had a long record of challenging European domination in the colony. He in fact was the first Chinese to be selected to become a steward at the Jockey Club.

When I opened my account, Sir Sik-Nin, as the Chairman of the bank, had directed a junior executive by the name of Yeung to attend to all

my needs.

Of course, a great deal had changed over the years. Sir Sik-Nin was no longer there and the bank had changed hands and name. But I had kept my account there and Mr. Yeung, unsurprisingly, had shifted his allegiance to the bank's new owners. He had risen now to become a senior executive of some consequence. He and I had developed a firm and cordial professional relationship over time and, notwithstanding his advancement within the bank, Mr. Yeung had retained an oversight concerning my needs.

"How can I be of service to you, Mr. Wong?" Mr. Yeung asked, immediately upon seeing me enter his office.

"I need a standby overdraft facility." I replied automatically.

"That should not be a problem. Now let me see . . . ." He then rummaged among some files and documents before continuing: "You have well over a million dollars on deposit with us — earning interest, of course — and you have a handsome monthly income from Li & Fung on top of a monthly government pension. You're at the same time clean as a whistle on our books in terms of mortgages and debts. I would say you could have whatever overdraft facility you desire. You're what we would call a very low-risk customer."

Well over a million dollars, I thought wryly and instantly to myself. The sum, made up of the remnants of the Li & Fung deal, the fortuitous dual payments of both my civil service and my Li & Fung salaries for six months, and the premature 25% commutation of my pension, had turned out not to be needed after all, now that the educational expenses for my sons had been adequately provided.

If I had been smarter at the time, I would not have commuted a quarter of my pension into a lump sum. But it was no use crying over spilt milk.

"Good," I said, returning to the matter at hand. "Just set up whatever overdraft facility you consider reasonable and appropriate and transfer my cash deposit balance to your foreign exchange department to set up an account for forward trading in foreign currencies."

"I would need signed authorisations for that."

"All right; make out the forms and I'll sign them."

He made out the forms and I signed. Afterwards, I said: "Please instruct your foreign exchange department that as soon as the exchange rate for the Hong Kong dollar goes up to nine or above against the U.S. dollar, the department should, on my behalf, start selling the American dollars



forward, for settlement in six to eight weeks, to the full extent possible with my account. I believe a person could normally trade foreign currency trades on a margin of only 10%.”

“What about your overdraft facilities, Mr. Wong?”

“Leave those in place, as my backup, in case there are margin calls.”

“But your instructions would appear to be going against market sentiments, Mr. Wong. We’re old friends. You’ve been a top civil servant. Do you know something that I don’t?”

“I cannot answer your question, Mr. Yeung, because I don’t know what you don’t know.”

“I mean, is there some secret information or aim which is making you leave instructions the way you have?”

“If you mean whether I have insider information, the answer is ‘no’. But I have considered a number of known facts and I have arrived at my own conclusion. I do hope that I will be as spectacularly right in my judgement as Thales of Miletus had been.”

“Who’s Thales of Miletus?”

“Well, Mr. Yeung, I did tell you that I did not know what you do not know. But I have no time to explain at the moment. I have another pressing mission to undertake.”

Mr. Yeung put on a baffled look and I, with a quick farewell, excused myself.

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Upon leaving the bank, I retraced my steps back to Connaught Road Central, to the Hong Kong Chinese General Chamber of Commerce, where the office of my old friend, Mr. Ip Yeuk-Lam, could be found.

I realised while I was talking to Mr. Yeung that the money I actually had would be just a drop in the ocean in the foreign exchange market terms. So I needed much more in the way of ammunition. Yeuk-Lam had to be my first call for help.

I came straight to the point with my old friend when I entered his office. “Yeuk-Lam, have you any uncommitted cash lying around?” I asked. “I need a quick loan, for no more than two or three months at the most.”

“Sure. How much do you want?” Yeuk-Lam replied.

“How much do you have?”

“I’ve got about two and a half million,” he answered, with a quizzical look. “I presume you’ve got your eye on another apartment, now that property prices have fallen?”

“No, I’ve got my eye on a giant Hoovering machine which would suck up all the money that idiots are throwing out onto our streets, right, left and centre.”

“What do you mean?” Yeuk-Lam asked.

I revealed my thoughts and all the reasons I figured the current exchange of 8.65 to one American dollar was over-pricing the latter, especially after President Nixon had taken it off the gold standard back in 1971. Now that the local dollar had appreciated against the American one, that current level of exchange rate could only be sustained by continuing fear, greed and reckless speculation.

“The Financial Secretary must be working on a way to calm things down right now, I reckon, because the current level of exchange could bring real damage to the economy,” I said.

“The Chinese must be worried too, but you must know more about that than I do. You know the Chinese will stand four square behind the Hong Kong dollar because the Bank of China is one of the three note-issuing banks, along with HSBC and Chartered Bank.

“I think the madness will unfortunately continue for a bit longer, with the local dollar going down perhaps some more, because the speculators and the greedy want it that way. But if the government holds its nerves, as I think it will, and then go about setting a more realistic exchange rate, at below the present level, the speculators are going to be in for a good hiding.

“So I want a loan to sell the American dollar forward against the local currency. I’ve already given instructions to my bank to sell forward for a duration of four to eight weeks once the figure hits nine to one or above. But my means are limited. So far as I’m concerned, any rate that the government sets below eight dollars will be sheer money for jam.”

“But wait a minute,” Yeuk-Lam said, “if things are going the way you have described — and I have no reason at all to doubt anything you’ve said — then I also want a part in the game.”

“All right. Then we’ll go 50:50 on what you can spare. Go to your bank and give it the same instructions I have given to mine. I can always touch other rich friends for additional loans.”

“Since this sounds so sweet an opportunity, do you mind my telling relatives to do likewise?”

“You and I are like brothers, Yeuk-Lam, with mutual trust and understanding. We don’t even need words. I wouldn’t feel quite comfortable having other people’s money on my conscience. If you think it a good idea for your relatives to get involved, I suggest you ask them to ring me first, so that I can explain to them directly and fully the basis of my thinking. If they still want to go ahead after my explanation, it would then be their own decision.”

As it happened, only one of the nephews of Yeuk-Lam’s rang. He was a businessman called Ip Shing-Wo. I had known him fairly well because he had stood in a few times when our normal *mah jong* quartet was short of a leg due to travel plans, illness or prior engagements. I explained my reasoning to Shing-Wo and left him to decide for himself what he intended to do.

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What eventually happened in the wider world was that the exchange rate exceeded nine dollars to one American dollar a few days later in September, under high speculative pressures, and my instruction to my bank went into effect. During the last weekend of September the rate actually hit a record of 9.60 dollars for an American one.

But the joy of the speculators was short-lived. On October 15, the government threw its weight behind a new peg of 7.80 to the U.S. dollar. The currency chaos calmed down and the local dollar stabilised fairly quickly.

The net result for me and those friends who had joined in on that currency punt was that we made many tens of millions of dollars over a very short period of time — and all happily at the expense of disruptive speculators.

So far as Li & Fung was concerned, I could find no mention in the published accounts of the parent company for that year recording foreign exchange gains or losses. I assumed there must have been a loss, submerged and disguised somewhere within the other figures; if it had been a significant gain, some boast would have been made of it.

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In respect of the multiple millions I had thereby gained but which I had never needed or wanted, except to prove that my view of an insane social situation was correct, I did not know what to do with the accumulated sum. It did feel amusing for a short while to have so much loose change sloshing around, especially with pressure coming from Suze Ip on the flanks nudging me towards a long-term relationship with a teenaged Chiu Kit.

But the feeling of light-headedness soon evaporated, together with all fear of taking on financial responsibilities for Kit's education should a firmer relationship occur. There were, in any case, tentative options being pushed for visiting Shanghai in the spring.

A number of other options did saunter across my mind. I could, for instance, quit work altogether and indulge my youthful fancy of writing fiction. But I could not really do that because I had given my word to my employer to work in commerce for a certain number of years.

Another complication was that, if a marriage ensued, I had also promised Kit I would show her many of the places and promises of the world. I could hardly concentrate on writing while such promises had not been kept. And all the while, the nagging need to manage excessive levels of funds stayed with me.

Eventually, a friend who worked for a leading American investment bank came to my rescue. She introduced me to that arcane world of Euroclear, zero coupons and callable and non-callable government bonds. She suggested that I open an account with her bank, park my funds there and continue doing whatever I had been doing before.

That sounded too attractive an alternative to miss. So I did as she had suggested, converted my money to pounds sterling and invested my funds into 30-year World Bank bonds with a coupon rate of 10.75% per annum. Since I had no use for extra money on top of my normal income, I asked that all interest payments on the bonds be reinvested in the same bonds.

After a while, I appreciated what Einstein meant when he described compound interest as a frightening thing. Compound interest appeared an almost obscene aspect of the capitalist system. It enabled a person with money to invest and command a high return without the slightest effort on his part! An interest rate similar to my World Bank bonds could see a person's wealth double in four years and quadruple in eight years.

I do not know whether I shall live long enough to write the fifth volume of my family memoirs. In all probability I shall not. But there is one statement I can make now which will be contrary to received opinion. In my humble experience, I have found it much more taxing and tedious to give money away meaningfully than to make it.

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