WEIJIAN SHAN

MONEY GAMES

THE INSIDE STORY OF HOW AMERICAN DEALMAKERS SAVED KOREA'S MOST ICONIC BANK

WILEY

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To all our limited partners

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Foreword

In 1998, during the Asian Financial Crisis, the central banks in many Asian countries melted down and could not protect their nations' currencies or their commercial banks, and thus needed bailouts from the International Monetary Fund (IMF). As a condition of these bailouts, the IMF often required the governments of recipient countries to sell off assets, particularly failed commercial banks. Korea was no exception. In fact, it was the poster child for this paradigm. Among the assets the Korean government attempted to sell was Korea First Bank (KFB). KFB had historically been the largest commercial bank in Korea, but by this time had shrunk to the fourth largest. Still, under the right ownership and management, KFB could be a very profitable asset. Accordingly, Korean government officials and their investment bankers went around the world in the hope of finding a strategic investor to turn around KFB. They didn't have much luck. Part of the problem was that the few Western financial institutions interested in KFB wanted to buy the whole bank, and only after a bailout had left all the bad loans with the Korean government. This would leave the "good" bank for the foreign investors. The Koreans, however, were keen to keep a significant ownership stake so that if the bank was indeed turned around, the Korean government would have something to show

for all the financial support it had given KFB by keeping the bad loans. Into this fray came Weijian Shan and his team at Newbridge Capital, the Asian affiliate of our private equity firm TPG. TPG had pioneered the good bank/bad bank model in the United States some years earlier and we thought that this model could work for the Korean government and the failed banks. *Money Games* is the story of a major takeover: the origin of the deal, the incredibly difficult negotiation between the Newbridge team and the Korean government, and the subsequent transformation of the most iconic bank in Korea, the first to be fully controlled by a foreign investor. The two sides negotiated for more than a year through a series of understandings and misunderstandings, which ultimately led to the injection of needed capital by Newbridge in KFB for a majority stake with full control of the bank. It was through an arduous process that Newbridge finally took over control of KFB. Shan, our teammates, and I held secret meetings outside of Korea because we worried our phones might be tapped. (Mr. Kim Chee was the nickname I was supposedly given by the Korean negotiating team after they had heard me complaining about kimchi, the spicy Korean cabbage, on a tapped phone.) Strong personalities and divergent cultures clashed, often resulting in colorful manifestations of different negotiating styles and tactics.

It turns out that while negotiating sessions were grinding on, Shan was taking notes and writing detailed memos. These give *Money Games* a strong backbone, making it a truly riveting read. Not only does it shed much light on the Asian Financial Crisis of 1998, but it also serves as an interesting primer for anyone who is curious about how private equity works and how private equity investors make deals and create value. The bank was ultimately restructured by Newbridge, which brought in new management, and returned to profitability, particularly in the housing mortgage business, which KFB had more or less invented for Korea. Shan's account of this fascinating story sets forth some lessons for us all, whether we are private equity veterans or curious outsiders hoping to better understand this secretive world. I hope you enjoy the journey.

—David Bonderman
Chairman and Founding Partner, TPG
April 9, 2020

Acknowledgments

This book is the inside story of how Newbridge Capital, a U.S.-based private equity firm, acquired and turned around Korea's most iconic bank. Almost everyone in high- and middle-income countries is a beneficiary of private equity investing. The sovereign wealth funds that manage money on behalf of their countries' citizens; the pension funds that provide for government and corporate employees; the endowments that fund schools and universities; not to mention the banks, insurers, and other financial institutions that look after the savings of millions of retail clients: All are active investors in private equity for the benefit of their constituencies. I am grateful to all our investors who have entrusted us with their money over the years, first at Newbridge Capital, then at TPG, and now at PAG.

Almost every private equity deal is accomplished by the coordinated efforts of a large team, involving the dealmakers who source and underwrite the deal; the operational specialists who monitor the company's performance and work closely with its management; the management team itself; and a myriad of financial, legal, accounting, and consulting advisors. Some of these individuals appear in this book, but many do

not, and those who deserve recognition are too numerous to name. I thank all my colleagues who worked on the Korea First Bank transaction in their different capacities. This deal would not have been successful without their collective effort. Robert A. Cohen served as CEO of KFB (2001-2005). I thank him for leading the rebuilding of the bank and for his memoir *Turning Around a Bank in Korea* (2008), which fills some information gaps in chapter 15 of this book.

David Bonderman, founder and chairman of TPG, has been my mentor and inspiration ever since I began my investment career more than 20 years ago. I owe him a great debt of gratitude for guiding me professionally and for penning the foreword for this book.

Mark Clifford, Jill Baker, Tim Morrison, and Christina Verigan helped edit my manuscript at different stages of the writing process. I am thankful to them for their painstaking and meticulous work.

I thank Bill Falloon, executive director at Wiley, for his support and help with the publication of this book as well as my first book, *Out of the Gobi: My Story of China and America* (2019).

Rachel Kwok provided the best secretarial support any author could hope for, allowing me to concentrate on writing.

In the years that I was working on the Korea First Bank transaction, and again as I was writing this book, my wife, Bin Shi Shan, our son, Bo Shan, and our daughter, LeeAnn Shan, often had to endure a distracted and sometimes absent husband and father. I owe them greatly for all I have been able to accomplish, including the publication of this book.

Weijian Shan
June 10, 2020
Hong Kong

Author's Note

It can be difficult to decide how to write Korean names in English. Typically, Korean family names come first, followed by given names (as in President Park Chung-hee or President Kim Dae-jung). When dealing with foreigners, however, many Koreans reverse the order of their family and given names to follow Western convention.

Koreans may also abbreviate given names to make them easier for foreigners to remember or pronounce. For example, some people occasionally refer to President Kim Dae-jung as DJ Kim (or simply DJ) when speaking to foreigners. Some people, especially those who have lived in Western countries, adopt Western first names, which they place before their surnames (e.g., David Kim, Steve Choe, or Peter Jeong).

In this book, for the convenience of the reader, I consistently use the Western way to write Korean names, placing the given name first. For example, President Park Chung-hee becomes President Chung-hee Park and President Kim Dae-jung becomes President Dae-jung Kim or DJ Kim. There are exceptions, however; in cases where I quote from archived memos and letters, the original reference, which may follow Korean convention, remains intact.

South Korea's currency is the *won*, which is sometimes presented as *KRW* (Korean won). During the period of this book, 1997 to 2004, the won's exchange rate against the U.S. dollar fluctuated widely. In December 1996, the average won–dollar exchange rate was 842, meaning it took 842 won to buy one U.S. dollar. By February 1998 the won's value had dropped 48 percent. By December 1998 the won had regained some of its value, reaching 1,213 won per dollar. For the purposes of simplicity, I use the exchange rate at the particular moment in the story to approximate the dollar equivalent.

All dollar amounts represent U.S. dollars, unless otherwise indicated.

Preface

Big Money Legends

It was a brisk autumn day in 1900, and Andrew Carnegie, 66 years old, was enjoying winning a game of golf against 39-year-old Charles M. Schwab, the president of Carnegie Steel Company. Carnegie was, at that point, one of America's most prominent businessmen. Carnegie Steel, the company he had founded, had revolutionized industrial steel production and had become the largest steel company in the world. Unbeknownst to Carnegie, Schwab had been working on a plan with John Pierpont Morgan, America's most powerful financier. Schwab's mission was to talk Carnegie into selling his company to Morgan. It was widely known that winning a game of golf always eased the Scottish-born industrialist's temperament—and so Schwab played to lose. After the game, Schwab raised the idea with Carnegie, who seemed receptive.

The next day, Carnegie handed Schwab a piece of paper scrawled with numbers adding up to $480 million, a colossal amount in 1900 (approximately $14.5 billion in U.S. dollars today). It was the price

Carnegie was willing to accept for the sale of Carnegie Steel. Schwab took the paper to Morgan.

Morgan glanced at the figures and said, simply, "I accept it."

On a handshake, Morgan acquired Carnegie Steel for $480 million. Around the same time, Morgan consolidated several other steel companies to create U.S. Steel in March 1901. Capitalized at $1.4 billion ($42 billion in 2019 dollars), it was the first billion-dollar corporation in the world.

Carnegie's cut from the sale of his steel company was about $225 million ($6.7 billion in 2019 dollars). The deal, as Morgan observed wryly while congratulating him, made Carnegie the richest man in the world.

For generations, financiers, historians, and the general public have loved telling this tidy little story, amazed at how easy such big-money games seemed to be for the rich and powerful. Such games—the private buying and selling of companies and institutions—are now called *private equity*, and Morgan was probably the first notable private equity dealmaker in history, many decades before the practice became an industry and acquired its own name.

But the real story is unlikely to be so simple.

Where, for example, did Morgan get the money to finance the deal? The largest source, providing $225 million out of the $480 million required, came in the form of an IOU: a 50-year bond, bearing a 5 percent interest rate. In other words, Morgan borrowed almost half of the purchase price from Carnegie himself.

It is plausible that when he accepted Carnegie's price, Morgan was confident he could raise the vast amount of capital he required, if not from Carnegie then from other sources. It's plausible, but doubtful. The amount he borrowed from Carnegie represented too large a percentage of the price tag for the deal to work without it. The amount of capital required was more than 2 percent of U.S. GDP at the time; the same proportion would be equivalent to $426 billion today. Even the great Morgan could not have known for sure if he could raise that sum, or at what cost, or how long it would take, without testing the market first.

In any case, securing Carnegie's acceptance of an IOU, to be paid over a period of half a century, was a critical part of the transaction—and

certainly required much negotiation and documentation before the handshake.

In the end, how much was borrowed? How much equity capital was raised? Did some of the shareholders of Carnegie Steel swap their shares for the shares of U.S. Steel? Did Morgan put in any of his personal money? What were the exact sources and uses of Morgan's funds? And, eventually, what was the outcome for Morgan's brainchild, U.S. Steel? How much money did Morgan and his investors ultimately get out of it?

Presumably there were records, locked away somewhere in the House of Morgan. But there is no way to know if these records have survived; the details of the transaction remain hidden from the public eye. The point is that Morgan cannot have agreed to such a big deal without specifying certain conditions, including, for example, his ability to raise the required capital. It is entirely possible that the deal would have fallen apart if Carnegie balked at the idea of lending money to Morgan.

There is no way that a deal of this size and complexity could be done in the same manner as one buys vegetables in a grocery store, even if published accounts make it seem so straightforward.

Private equity is the art of using other people's money (usually) to make investments in private markets (usually), as opposed to buying up stock of a company on a public exchange. It is the job and the fiduciary duty of a private equity dealmaker to generate good returns on capital for his or her investors. The dealmaker does not always win. And that is key: No private equity story is complete without knowing if the deal eventually makes or loses money.

In view of the tough times U.S. Steel went through in the years after its creation, it is possible that those who had entrusted their capital with Morgan ultimately lost money. The moment of dealmaking between Carnegie, Schwab, and Morgan occupies a shining spot in the annals of American business. However, the ultimate outcome of the first mega-buyout deal in history remains buried.

★ ★ ★

In the past three decades, private equity, or PE, has roared into public view, starting with the takeover of RJR Nabisco by Kohlberg

Kravis Roberts & Co. (KKR) in 1988. The transaction was valued at $25 billion, the largest ever at that time, which awed even Wall Street.

PE fascinates the public because of the enormous amounts of money it moves around and the high stakes of the game it plays. The control of iconic corporate giants can be wrested away, and such deals can make an indelible impact on prominent industries. Then there are the larger-than-life dealmakers, who are often handsomely rewarded for their work to the tune of hundreds of millions of dollars. In the United States, there are more than twice as many PE-owned private companies as there are public ones.

Despite PE's solid presence, there is a dearth of literature about the inner workings of the industry. A few big buyouts have been written about in books, in most cases by journalists who try to piece together from the outside how the deal was made. While they are all fascinating, I am not aware of any book that tells the full story of a big deal, from beginning to end, including if the investors eventually made or lost money.

This is understandable because it usually takes years for a buyout deal to complete its cycle from the initial investment to the final exit. No business reporters could wait that long to tell the full story. In the case of RJR Nabisco, it took KKR 15 years to get out—long after the deal had been written up in a bestseller *Barbarians at the Gate* by the *Wall Street Journal* reporters Bryan Burrough and John Helyar. As it turned out, the firm had invested $3.5 billion of equity capital in RJR (the rest of the $25 billion was borrowed) and eventually lost $730 million, according to news reports, making the deal a rather dismal failure. KKR's investors would have been better off leaving their money in a savings account.

Much of PE's history is chronicled through accounts which were written too soon as they usually include only the deal-making part of the investment but not how the investment subsequently performed for the investors. *Saving the Sun*, by the *Financial Times* editor Gillian Tett, was also published only three years after the acquisition of Japan's Long-Term Credit Bank. Some of the investors were able to get out early with sizable gains; others remained invested nearly 20 years later and may have suffered losses. *Dethroning the King*, by the *Financial Times* reporter Julie MacIntosh, is another book recounting events that are far from over: the takeover of the venerated beer

giant Anheuser-Busch, orchestrated by the Brazil-based PE firm 3G. For these dealmakers and many others, the jury remains out if these will turn out to be good or bad investments.

★ ★ ★

"Any idiot can buy a company," Henry Kravis of KKR likes to say. "It's what you do with it once it's acquired that matters."

To PE investors, the making of a deal, no matter how big, complex, or high profile, is only the beginning. The deal's success or failure can be ascertained only once the investor fully exits from the investment. In the years between the purchase and exit, teams of PE professionals expend great amounts of energy and resources to create value with the acquired company, to transform and to grow it. To exit from a big investment is often as complicated a deal as the initial acquisition—if not more so.

Any mistake in this deal cycle can lead to disaster and financial losses, erasing whatever satisfaction or glory the closing of the transaction brought years prior—and possibly ending the careers of the dealmakers themselves. Seasoned PE investors know that every deal is like walking on thin ice with a heavy load on their shoulders. They must take great care with every step to avoid plunging into failure. They can celebrate only after reaching the far shore, when they deliver their load to their investors.

Private equity is shrouded in mystery, in part because no PE dealmaker, to my knowledge, has written a complete insider's account of a major PE buyout deal from beginning to end.

This book tells the inside story of a profoundly impactful buyout deal, including the various twists and turns, successes and setbacks, that the American private equity firm at the center of it all encountered. Just as integral as the investors is the setting of the story: Korea in the immediate aftermath of the 1997–1998 Asian Financial Crisis. The country, whose modern history has been intertwined with that of the United States, was plagued by a beleaguered banking system and widespread economic instability.

The depth and severity of Korea's economic crash had come as a surprise to many. Starting in mid-1997, many of the world's most

flourishing economies seemed to collapse almost overnight in rapid succession. Thailand, Malaysia, and Indonesia were the first countries to be hit, with Korea close behind. Curiously, there did not seem to be any particular reason why a crisis that appeared to originate with a collapse of the Thai currency should travel so far north, or why it appeared to mutate into a more virulent strain once it got there.

There was no shortage of potential culprits. Some joined Malaysia's then-prime minister, Mahathir Mohamad, in blaming foreign speculators for placing opportunistic bets against Asian currencies. Some pointed to the massive correction that ensued once the government was forced to devalue Korea's currency, the won. But many agree that one of the main reasons that the crisis cut so deeply in Korea was because systemic risk pervaded its financial system.

Nationalized under its authoritarian president Chung-hee Park in the 1960s and nominally privatized in the 1980s, Korea's banks had never fully thrown off the yoke of government control. These banks, regulators, politicians, and Korea's massive industrial conglomerates, known as *chaebol*, existed in a cozy symbiosis. As part of its decades-long effort to cultivate a prosperous nation following the privations of the Korean War, the government chose the industries and companies to bestow favors on. The banks would extend credit to these companies, which would churn out the steel, ships, and semiconductors that undergirded the Korean economic miracle. Implicit in this arrangement was the idea that the government would come to the aid of banks or enterprises that ran into financial trouble.

The financial crisis brought the entire system crashing down. Many of Korea's largest *chaebol* went bankrupt or were forced to restructure. Two of the country's largest banks failed and were nationalized. After the International Monetary Fund stepped in with a massive $58 billion rescue package, it mandated that these banks be sold to foreign investors, for the purpose of overhauling their shaky lending practices. It was an opportunity to bring some much-needed transparency and structure to Korea's banking system, and it was felt—among the Korean government and global institutions at large—that foreign investors would bring in a credit culture to prevent such risky loans from being made again.

Private equity is not only a source of capital; it is also a vehicle for new ideas and new ways of doing things. Throughout my experiences

as a PE investor in Korea, I was conscious of the fact that we were playing an important role in helping a struggling country achieve necessary changes. Similar reforms were occurring across Asia, by choice or necessity. The government-directed economic policies that had served some countries so well during Asia's decades of rapid growth had brought about structural weaknesses that became visible only when the economic earthquake struck, and fixing them was one of the greatest challenges the region faced as it entered the 21st century.

Structural reforms are always painful, especially if necessitated by a crisis and partially imposed as conditions for foreign help. At the time, Korea's economic calamity and the onerous restrictions of the IMF bailout were seen as the humiliation of a proud country on a global stage. The reform agenda was championed by a new president, Dae-jung Kim, who had spent his entire life fighting to bring democracy to the country and who had come to the office only in February 1998, almost at the height of the unprecedented economic crisis. Not everyone in the bureaucracy agreed with his reform agenda, and xenophobia also stood in the way of allowing foreign investors to control the country's venerated financial institutions.

Time and again in our negotiations, we had to deal with the two opposing forces, pro- and anti-reform, which made the deal process exceedingly difficult and uncertain. However, all the government officials we dealt with were fighting for what they considered to be the best interest of their country and people. They were men of high integrity and selfless dedication to their country. (They were all men, as Korea remained a Confucian and male-dominated society at the time.) This book tells the story of the takeover of a national bank, and also provides an inside look, in real time and behind closed doors, at how a government grappled with the greatest crisis it had faced since the end of the Korean War.

—Weijan Shan
Hong Kong
February 2020

Chapter 1

Money Talks—My Path to Private Equity

A couple of years ago I had lunch with some senior executives of Jardine Matheson Holdings on the 48th floor of Jardine House in Hong Kong. Jardines, as it is known, is a British conglomerate founded in Hong Kong with a history dating back more than 180 years. It has interests in everything from aviation and hotels to retail and real estate. The firm's spacious private dining room was decorated with bright and cheerful Chinese paintings and had a breathtaking view of Victoria Harbour.

As my gracious host walked me to the elevator lobby after lunch, I noticed a giant oil painting, darkened with age. It was a portrait of an Indian man wearing a tall black headdress and a long-sleeved robe, cinched at the waist, that appeared to be made of cream-colored silk. He had a dramatic mustache, an enormous potbelly, and eyes that were both keen and kind. He was sitting on a cushioned chair, surrounded by scrolls. He held one in front of himself as if he had just finished reading it. On his chest he wore a large gold medal, signifying some kind of honor. Behind him sitting tall on a pedestal was a giant potbellied brass vase whose exterior bore some barely recognizable letters, which I made

out to be *CARITAS*, a Latin word from which *charity* in English was derived. I was instantly curious about this man, who looked anything but English, and his prominent place in the head office of a distinctly British company.

"Who's he?" I asked my host.

"His name was Jeejeebhoy, the man who grew opium for us in India, which we shipped and sold to China," my host replied nonchalantly. It was as if he were talking about someone engaged in selling vegetables.

I later learned that Jamsetjee Jeejeebhoy, a Bombay native, had amassed a fortune in the British opium trade to China. His "distinguished services" to the British Empire were recognized with a knighthood in 1842 and by a baronetcy conferred upon him by Queen Victoria in 1858, the first ever granted to an Indian.

I was a little surprised by my host's forthrightness. Jardines' historical role in the drug trade was common knowledge, but I thought they'd be more circumspect about it.

"Ah," I said, "I thought it was an awkward subject to bring up."

"Nothing awkward," my host reassured me. "We say Her Majesty's government made us do it. But we aren't drug dealers anymore," he added with a twinkle in his eyes.

We both laughed. Jeejeebhoy's story hints at Hong Kong's inception as a British colony. Jardine Matheson was one of the original foreign *hongs*, or trading houses, established in southern China, that engaged in trading goods like tea and cotton among Britain's far-flung colonies. It also had a major interest in smuggling opium into China. Eventually, the Chinese government began seizing and destroying this illegal cargo, so Jardines' principals lobbied the British government to send in gunboats. In the ensuing Opium War (1839–1842), Britain's military forces overpowered the Chinese and forced China to sign the Treaty of Nanking by which, as part of the settlement, China ceded the island of Hong Kong to Britain.

Western commerce in the region grew, the opium trade continued, and Britain continued to tighten its grip on the area around Hong Kong. In 1860, Britain annexed the Kowloon Peninsula, directly across Victoria Harbour, the body of water that gave Hong Kong its name. Roughly translated, *hong kong* means *fragrant harbor*, but by the mid-19th century, the British had named the harbor for their queen and established it as a

center of international trade. In 1898, Britain secured a 99-year lease for the New Territories, a mountainous, mostly rural swath of land surrounding Kowloon that connected it to the mainland of China.

Jardines grew with the colony. The skyscraper I was dining in had been the tallest building in Hong Kong when it was completed in 1972, a testament to the *hong*'s enduring legacy and recognizable for its unique porthole windows. Locals called it the "building of a thousand orifices," as a BBC documentary on the British Empire delicately put it. "Doubtless, somewhere in the foundation lies buried the conscience of its founders," deadpanned the narrator.

Hong Kong was still a British colony when my family and I arrived from the United States in 1993. Under British rule, Hong Kong had prospered, attaining a living standard among the highest in the world by the early 1990s.

Located at the southern tip of China, with a land area of about the same size as the city of Los Angeles, it was a laissez-faire market economy, among the freest in the world. As an economic gateway to mainland China, Hong Kong was the regional headquarters to many multinational companies and international financial institutions. From Hong Kong, a business traveler could cover almost all of Asia: Beijing, Shanghai, Tokyo, Seoul, Taipei, Bangkok, and Singapore were all less than a four-hour flight away. English was widely spoken, and families of foreign expatriates could live comfortably there. Despite our Chinese background and Hong Kong being a Chinese city, my family and I considered ourselves outsiders. We did not speak or understand the local Cantonese dialect.

Before moving to Hong Kong, for six years we lived in the United States, in Philadelphia, where I was a professor at the Wharton School at the University of Pennsylvania. The life of an academic at an Ivy League university was comfortable, although it became a little dreary after a few years. American business schools are not exactly ivory towers. Their professors frequently maintain strong ties to the business world, and Wharton had particularly close interactions with Wall Street. While I never felt too removed from the real world of business and finance, I longed for a taste of real *action*. It seemed a bit ironic that I had been teaching business for so long without having actually done any.

By the early 1990s, China's growth had captured Wall Street's imagination—and I followed developments there with keen interest. At

the time my research and teaching were focused largely on the management of multinational corporations and on the biotechnology industry, which had nothing specifically to do with China or Asia. Even so, I had grown up in China during its tumultuous years, so I had an intrinsic connection to the country. (My memoir, *Out of the Gobi: My Story of China and America*, chronicles my experiences during this turbulent period.) Eventually, I found my way to the United States, where I received a PhD in business administration at the University of California, Berkeley before becoming a professor at Wharton.

Because of my roots I had followed the developments in China with keen interest and I visited the country from time to time. At Wharton, I founded *China Economic Review*, an academic journal dedicated to researching China's rapidly changing economy and role in the global business landscape. My credentials as a professor at a top business school, combined with my knowledge of the country, were inevitably attractive to some firms with ambitions in the Chinese market. When opportunity knocked on my door, I was ready.

In 1992, I was approached by several major companies involved in management consulting or investment banking. Eventually I decided that the latter, which mainly helps businesses raise capital, was more interesting, and I began to explore related opportunities. In emerging markets, companies grow fast. Businesses tend to be more willing to pay for access to capital than for just knowledge and advice. Money talks, I thought, and at an investment bank, I figured my job would be easier than at a consulting firm.

I was recruited by a tall, shrewd banker named Tad Beczak, then the president of JP Morgan Securities Asia. He took me to a restaurant in New York City for lunch in early 1993. I had expected him to tell me how wonderful it would be to work for his bank. To my surprise, he looked at me across the table with his penetrating eyes and told me, "It's going to be hard." However, he suggested, I might have what it took to succeed.

I found Beczak to be down-to-earth and straightforward, quite different from the stereotype of a Wall Street banker. He had a good knowledge of the Chinese market, especially its challenges and pitfalls. I took an immediate liking to him—and the prospect of doing something new, even something difficult, excited me.

I was offered a job as vice president in JP Morgan's Hong Kong office, with an additional title: Chief Representative for China. At industrial

firms, vice presidents are big shots, but investment banks mint them by the dozen. Knowing this, I did not like the title. Even though I had zero experience in banking, I thought my credentials as a business professor ought to count for something. Eventually I accepted the offer, understanding that I needed to prove myself before getting a more senior position.

My major responsibility at JP Morgan was to get clients, typically large companies, to hire us to raise capital for them by underwriting their initial public offerings (IPOs) in overseas markets, or to provide other financial and advisory services. Underwriting IPOs is extremely lucrative for investment banks. Typically, we charged a fee representing a percentage of the capital raised. If the client raised $1 billion, our 5 percent fee would be $50 million (the actual percentage varied). However, qualified IPO candidates were hard to come by in China, and obtaining the mandate to underwrite their stock offerings was a fiercely competitive business.

When I arrived in Hong Kong in 1993, China was still a poor and developing country. In that year, its gross domestic product (GDP) was only $440 billion, one-sixteenth of that of the United States (about $6.8 trillion) and one-tenth of that of Japan (about $4.4 trillion). China's per capita GDP was only $377, a tiny fraction of that of the United States (more than $26,000) and of Japan ($38,000).

At this early stage of China's economic development, any business of decent size was state-owned. Factories were organized like an extension of the government and reported to certain ministries, such as Ministry of Textiles or Ministry of Machinery. They each functioned like a department of the government. As such, they had to be restructured as joint stock companies before they could be offered to overseas investors. There were only a few IPO candidates, all of which were carefully selected by the Chinese securities regulator. From 1992 to 1994, just 31 companies received approval from the regulator to go public on overseas stock exchanges. Each year there were more foreign banks chasing IPOs than there were IPO candidates.

I soon realized, somewhat to my dismay, that not only was I new to the game, but my employer was as well. JP Morgan had a long history, dating back to 1871. But the House of Morgan had been broken up in the 1930s by the Glass-Steagall Act, split into Morgan Stanley, an investment bank, and JP Morgan, a commercial bank. This set of laws,

passed in an attempt to eliminate conditions that had helped cause the bank failures of the Great Depression, restricted a commercial bank to collecting deposits and making loans. It was not until 1989, four years before I joined, that the law was relaxed to permit the likes of JP Morgan to get into investment banking business, albeit in a limited way. In 1993, the bank was still building its investment banking business, and its underwriting capabilities were weaker than those of established houses, such as Morgan Stanley and Goldman Sachs. Those competitors were known as *bulge-bracket banks* because they were listed first, in bold type sizes, on the covers of stock offering documents.

JP Morgan's lack of a track record made it doubly hard for us to market ourselves to clients and compete with our bulge-bracket peers. To add to our difficulties, our pool of potential clients was smaller because JP Morgan was able to underwrite stock offerings only in the U.S. market, but not in Hong Kong, where most Chinese IPO candidates chose to go public. The saving grace was that none of our potential clients knew much about overseas capital markets or foreign investment banks. They were reliant on us to walk them through the process, and we made sure to make ourselves look as good as possible while doing so. As a former professor, I could be quite convincing, helped by the investment bank rankings, or league tables, prepared by my colleagues, who often placed JP Morgan at or close to the top.

Only later did I learn that every investment bank rejiggers these league tables to make itself look better. For example, if a league table showed we were in the top three in underwriting U.S. IPOs for Korean companies, it might mean that out of 100 Korean companies that had gone public in a five-year period, only three chose the U.S. market for their IPO, and in that year the bank was able to do one. To an unsophisticated client, though, being in the top three would seem quite impressive.

However, our competitors had their own league tables, and often a track record of underwriting Chinese IPOs, something we lacked. I found myself unsuited for the job because I could not honestly tell a client we were better qualified than our peers when I did not believe that was the case. I could only try to win their trust by going the extra mile, visiting with them so frequently that I am sure I came across like a type of human superglue. But still, it was an uphill battle, and one that was often too hard to win.