CHAPTER 1

EL SALVADOR

Bullets, Bombs, and Bonds

ON MARCH 24, 1980, Oscar Romero, the popular archbishop of San Salvador, delivered a sermon in which he issued a desperate plea to the Salvadoran military. "In the name of God," said Romero, "stop the repression." Just a few moments later, Romero, an outspoken advocate for El Salvador's poor and dispossessed, stepped into the sunlight in San Salvador's main square and was assassinated by gunshot, a victim of the right-wing death squads that operated at the behest of El Salvador's U.S.-backed military. Three days later, the U.S. House Appropriations Committee approved $5.7 million in new military aid to El Salvador.

Romero's assassination was one of the most infamous acts of right-wing violence in El Salvador's brutal civil war, a war that raged from the late 1970s through the 1980s, but it was hardly the only one. In May 1980, 600 Salvadoran peasants trying to flee to Honduras were killed by Salvadoran and Honduran troops. In December of that same year, three American nuns and a Catholic lay social worker were raped, shot, and buried thirty miles from San Salvador. In early January 1981, two American land reform advisers were shot and killed at the San Salvador Sheraton Hotel. And countless Salvadorans disappeared as well.

The Marxist rebels that flourished amid El Salvador's poverty and social inequality waged a guerilla war from the countryside and inflicted pain of their own, often targeting symbols of American power and capitalism. Under the banner of the FMLN, or Farabundo Marti National Liberation Front, the guerillas staged a series of bombings of banks and businesses. In late March 1981, the San Salvador offices of Citibank were destroyed when a blast ripped through an eighteen-story office building across from the Camino Real Hotel. A few years later, in June 1985, FMLN gunmen opened fire at a restaurant in San Salvador's popular Zona Rosa district, killing four U.S. Marines and nine Salvadorans. The murder and the mayhem went on and on, which is why El Salvador in the mid-1980s was such a perfect place to do business.

I was already familiar with the country when I began creating a market for El Salvador government bonds during this period. In 1970, after an eighteen-month stint in Vietnam as a young financial officer stationed at the U.S. Embassy in Saigon by the U.S. Agency for International Development (USAID), I was sent by USAID to Washington, D.C., for intensive Spanish-language training, then briefly to the Dominican Republic where I made loans on behalf of the U.S. government to state and private enterprises. From there, I went to El Salvador to assist in the writing of agricultural loans to the Salvadoran government.

The two years I spent in Vietnam (the subject of Chapter 2) at the height of the Vietnam War satisfied an urge I had harbored since childhood: to escape from the narrow confines of my middle-class Jewish upbringing in Brookline, Massachusetts, and to see the world.

My parents both hailed from small towns in Maine; my father from Patten, an hour and a half north of Bangor, and my mother from Bath, a shipbuilding town on the Kennebec River. My grandfather, Aaron, moved his family to the Dorchester section of Boston when my father, David, was in high school. My father returned to Maine to attend Bowdoin College, then came back to Boston with my mother, Frieda, to attend Boston University Law School. My parents aspired to nothing more than middle-class Jewish respectability and achieved it through my father's work as a collections lawyer. For me, their only son, they had one goal: to turn me into a replica of my father. With their small-town Maine roots, they had achieved all they ever could have imagined, financially and socially. Life was good, indeed perfect, and they wanted the same for me. It was inconceivable to them that I could do any better than my father did, or that I should even want to try, or that there was much of interest in the world beyond the banks of the Charles River. They never traveled outside the United States. A picnic atop Mount Desert Island in Maine was their biggest adventure.

In 1958, during my senior year at the prestigious Roxbury Latin School, which sent an astonishing number of graduates to Harvard (and all ambitious, middle-class Jewish boys from Boston were supposed to aspire to Harvard), my father informed me that he would only pay for me to attend college on the condition that I attend either Harvard or Bowdoin. Roxbury Latin was called the "marine camp of the mind" by some, as rigorous and demanding as any high school in the country. I worked my tail off there, but despite my efforts I didn't distinguish myself as a scholar; I was wait-listed at Harvard (I'm still waiting) and had no choice but to pack my bags for Maine. An all-male college in the middle of frigid Maine wasn't exactly what I had hoped for, not only because the chances of having a sex life at an all-male college in Brunswick, Maine, were slim to none, but also because I could see myself headed already for life as a carbon copy of David Saul Smith. My parents were thrilled.

Once I had graduated from Bowdoin in 1962 and, like my father, from Boston University Law School, class of 1965, my first departure from the path my parents had in mind for me was enlisting for the tour of duty with USAID in Vietnam from 1968 to 1969. I was willing to do virtually anything to avoid going into law practice with my father. Why their son preferred to head for a war zone rather than join his father in a law office in Boston doing collections work for clients such as *The Boston Globe* was beyond my parents' comprehension. "What's a nice Jewish boy like you doing in a place like Vietnam?" they would ask. I doubt they ever realized that it was that stamp collection my uncle, my mother's brother, gave me when I was eleven that set me on a course to Southeast Asia. Night after night in our Brookline home I would close the door to my bedroom and pore over the stamps my uncle had collected from exotic places all over the world—tiny island nations in the South Pacific, the great powers of Europe, African kingdoms—and ache to see some world beyond the grasp of David and Frieda Smith.

I have traveled obsessively and extensively all my adult life, but it was Vietnam in the late 1960s that established what would become a lifelong pattern of looking for riches among the ruins. From the relative safety of sultry Saigon, my colleagues at USAID and I would study local currency valuations and venture out into the countryside, often hitching rides on military flights, to write obscure reports about the rice crop or the Vietnamese labor force, even though many of us had virtually no formal training in economics. We would smoke cigarettes, and not infrequently pot, while banging out our reports on Smith Corona typewriters by day, the humid air and nonstop noise of Saigon's busy streets wafting through the windows. At night, like moths to a flame, we hit Saigon's infamous nightspots on the Rue Catinat, drinking heavily and making nonsensical conversation with the Vietnamese girls who gave us the privilege of plying them with "Saigon tea," drinks that we were not supposed to know contained no alcohol. I had little money and was known to many of the girls as "Cheap Charlie No. 10," ten being at the bottom of the barrel. Life abroad was even better than the stamp collection had suggested, so when my tour ended in Vietnam, I was ready for more.

It was more than a decade before I traded my first El Salvador bond, in 1970. But it was a decade earlier that I first traveled to El Salvador. It was a small, peaceful, lush country where Americans could travel without fear. The revolutionary fervor that swept Cuba when Castro overthrew Batista in the late 1950s, and that soon spread to other Central American countries, had not yet touched Salvador. Unlike neighboring Guatemala, El Salvador was stable and its people struck me as gentle, if not docile, given the poverty in which most of them lived. Beneath the surface, however, trouble lurked. A handful of powerful families controlled the country with their vast wealth. It would only be a matter of time until this fundamental injustice would erupt, as it did, into civil war.

During my six months in El Salvador, I traveled nearly every mile of the country, which isn't difficult since Salvador is slightly smaller than Massachusetts. You could drive the length and breadth of the country in a matter of hours had the Massachusetts Turnpike been relocated there. I soaked up as much of the ethos of the place as I could, meeting as many people as I could, so when I returned to Salvador in the early 1980s, amid the murder and mayhem of the civil war, I was well equipped to do what I came to do—create a market where none existed for El Salvador bonds, the sovereign debt obligations of the government. I was on familiar ground.

When my USAID work in El Salvador ended in 1971, I went back to Washington, D.C., and studied Portuguese at the State Department's Foreign Language Institute. Then I moved to Brazil, still on assignment for USAID, and later, in 1973, went to work for Deltec Bank in Sao Paulo. Deltec at that time was a pioneer among international banks in making loans to Latin American governments, and it was at Deltec where I began to learn a thing or two about the complexities of emerging-market lending.

It was an eventful three years in Brazil. I met my Brazilian-Lebanese wife, Salua, there, in an elevator, in 1971, and received what I like to call my "Harvard Business School education" at the hands of an international fugitive I had fallen into business with (more on this experience in Chapter 7). When that business failed, I felt I had no choice but to return to Boston, where I succumbed to the pressure to join my father in his law practice. We lasted all of three months together in 1975. He was paying me $125 a week. I hated the work and my father was overbearing. I thought I would go insane. I'd come home to Salua and say, "I can't take this. Maybe we should go back to Brazil." I always thought Salua's mother was pushing for us to return to the States because I could make more money there. But, in Brazil, I would be far outside my parents' sphere of influence. Brazil was exotic, the beaches beautiful, and the women more so. I could have lived happily ever after in Brazil.

I quickly left my father's practice and started my own, still doing collections, in an office I rented from my father. It wasn't a big move, but any distance I could put between my father and me was a distance I was willing to travel.

As soon as I was able, I moved to offices of my own. I used several tricks to create the impression that my little collections practice was an empire so that I would attract ever larger and more prestigious clients. The name of the firm was on the door, Smith, Levenson & Smith (I still used the name of my father's firm, with his assent), but I also had nameplates made for a handful of real and bogus enterprises that were part of the Robert Smith empire—Katanga Mining Corporation of Zaire, Leme Trust (a trust I created to hold my flat on Beacon Street), and the Urca Trust, to name a few. I also scheduled all of my appointments for four o'clock in the afternoon so that when clients came to the office the waiting room was always filled with people, creating the impression I was in great demand. Sometimes you have to fake it in order to make it. My mother was unimpressed. "You're not half the man your father is," she would say.

By 1976, my collections practice was growing and I detested every minute of it. The collection agencies that hired the collection lawyers got rich as middlemen, a lesson that wasn't lost on me. They'd charge clients 35 percent of any debts they collected, but had schmucks like me do the real work for a cut of 20 percent. On a $1,000 debt, they'd make $150 just for passing the work along. When we collected, the collection agencies looked like geniuses to their clients who had no idea who was really doing the labor.

To get business, I joined the Commercial Law League of America and attended its convention in Chicago that year, a giant schmooze-fest of collection lawyers and agencies looking for love. It was mid-winter and freezing, and I decided to hustle the Chicago collection agencies directly by going to their offices, about fifteen of them, all congregated on a street near the Loop. To save money, which I had precious little of in those days, I walked the two or three miles from my hotel in a stiff icy wind, struggling to hang on to my briefcase with one hand and my toupee with the other (I ditched the toupee years ago), smoking a cigarette every five minutes. "This is what my life has come to?" I thought. "I should kill myself!"

Ironically, it was through my collections practice that I eventually found my talent for making money in derelict economies when I was hired by a collection agency to collect a debt owed by a Turkish firm. We'll come to how I started in the debt trading business in Turkey in Chapter 3, but for now, suffice it to say that buying and then selling foreign debt obligations—trade claims and bonds—was something I had already done successfully, first in Turkey and later in Guatemala, before returning to El Salvador in 1984.

El Salvador in the 1980s was ripe for the picking for a lone operator like me for two reasons. First, for the large institutions we normally associate with investment banking, bond trading, and the like—the Citibanks, Chase Manhattans, and Merrill Lynches of the world—the money to be made in the relatively modest amounts of bonds issued by a country such as El Salvador is miniscule. When the big boys saw me running around San Salvador trying to make a deal they thought it was a joke. At first, I thought they might be right. But I was happy to pick up the crumbs they wouldn't touch.

Second, your typical banker usually isn't keen to stay in hotels where foreigners are shot, or to work in office buildings that are blown up. Sitting behind a glass door that says Citibank on the front and handing out business cards that identify you as a vice president of Citibank in a country with a deadly leftist insurgency is like putting a bull's-eye on your back. In short, for the big guys, El Salvador was high risk, low return. For me, a solo practitioner in a $99 seersucker suit from Filene's Basement and a bad toupee, the risk to life and limb was lower and the returns, which looked like the five-cent deposits on soda cans to Citibank, looked pretty good to me. Indeed, in the mid-1980s, when I started traveling to El Salvador on business about twice a month, I returned home each time with not less than $100,000 profit in my pocket. Those are pretty good crumbs.

One of the biggest challenges for foreign companies doing business in the developing world is how to convert profits made in local currencies into dollars or another hard currency (for simplicity, we'll speak of dollars). In El Salvador in the 1980s, every foreign company operating there had this problem and by helping them solve it, I made myself a very nice sum.

Today, El Salvador, like Panama and Ecuador, has a "dollarized" economy; the U.S. dollar *is* the local currency.* But, before globaliza-

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*In theory, adopting the U.S. dollar as the local currency, according to the Council on Hemispheric Affairs, "provides a form of financial measurement for countries prone to erratic economic policies. Dollarization affords them the discipline and tion forced the liberalization of currency and capital controls in much of the world, countries such as El Salvador issued their own currency (the *colon* in El Salvador's case) and by law made that currency the only legal tender for settling debts and paying for goods and services. This meant that everyone who received payments from abroad had to sell his hard, or convertible, currency to the Central Bank in exchange for the local currency, and anyone who wanted hard currency had to buy it, again at the legally fixed rate, from the Central Bank. Commonly, as was the case in El Salvador, the exchange rate is artificially low.

Predictably, when an exchange rate is set by fiat and not by the market, people with hard currency try to hide it wherever they can—under mattresses, in the walls of their homes, or in overseas bank accounts. They don't want to be forced to sell at the government's clip-joint rates. Conversely, everyone who has large amounts of the local currency and wants dollars has to buy them, by law, from the Central Bank. In theory, this situation should be good for the buyer of dollars because the exchange rate is artificially low. But there's a catch. To prevent a run on the Central Bank's limited dollar reserves (and in countries like El Salvador, the reserves were almost always negligible), the bank set strict limits on how many dollars you could buy over a certain time period and for what purposes, such as travel abroad. The Central Bank of El Salvador's foreign reserves were tiny because there's only so much coffee and sugar to export to the United States, and when a country's imports far exceed its exports, its balance of payments is negative and it doesn't have large amounts of foreign currency to exchange. This might not be a problem if the local currency printed by the government was backed by hard cur-

financial credibility necessary to attract foreign investment and the stability to effectively be integrated into global markets. Dollarization also reduces the transaction costs associated with currency conversion for poor South American countries." But countries that dollarize their economies also give up part of their sovereignty.

rency reserves, but typically, governments in developing countries just print money haphazardly to pay their bills. So, in a place like El Salvador, you'd have huge amounts of colones, the local currency, chasing a very limited supply of dollars. That's why black currency markets spring up. People who can't get dollars from the Central Bank at the fixed rate start shopping elsewhere, even if it's going to cost them more in the local currency to buy a dollar. They go where the supply is. And that's what I did, too, as we will see.

It's not just Mom and Pop who are affected by currency and capital controls. Foreign companies doing business in El Salvador, such as British American Tobacco (BAT), had a problem as well. BAT sold cigarettes throughout El Salvador and ended up with huge sums in colones that were virtually worthless outside of the country. So what is BAT to do? It can reinvest some of its colones locally and pay its local suppliers and workers in colones, which it did. But BAT is not in business in El Salvador to get rich in colones. If it can't convert all those colones to dollars at the Central Bank—because the bank doesn't have sufficient foreign reserves—and the sums are too large to exchange on the black market (not to mention illegal), how can BAT get dollars for its colones and bring its profits home?

To give companies a way to get their money out, governments often issue bonds payable, with interest, in dollars (they are called "dollar-denominated" bonds). That's what the government of El Salvador did. In the case of El Salvador, five-year bonds (that is, bonds that mature and are fully paid in five years) were paying 12 percent interest and, unlike many foreign bonds, regular principal and interest payments were being made. Companies like BAT buy the bonds from the government using colones (at the legal, or fixed, exchange rate) as payment and in return get a piece of paper that says the government will pay, over time, a certain sum in dollars with interest along the way.

The $64,000 question, of course, is whether that promise to pay is worth the paper it's printed on. Therein lies the risk and, thus, the potential market for the fiscal promises of the government of El

Salvador. After all, where is the government of El Salvador going to get the dollars to pay the bondholders? And since the government of El Salvador can't issue bonds endlessly without undermining faith that those bonds will be paid as promised, there's only a certain amount of them to go around. That's where I came in.

Simply put, I found companies that had purchased dollar-denominated El Salvador bonds with their profits and now, because they needed or wanted cash ("to monetize their profits," as we say in the business), or because the home office in London or New York wanted to improve its balance sheet, wanted to sell them. And I found buyers willing to buy them. Buyers would buy because they, too, needed to covert colones into dollars and believed the government of El Salvador would eventually make good on its promises or, at the very least, because they thought this was their best shot at some day getting dollars for their colones. (Some of the corporate finance strategies behind the decision to buy and sell were more complex than this, but for our purposes, this example will suffice.)

I was the classic middleman. I made my money on the spread: the difference between the price that the seller was willing to sell his bonds to me and the price a buyer was willing to pay. But how does one guy from Boston create a market for an instrument where none exists? The key is *chutzpah*.

Today, with the Internet connecting markets all over the world in real time, you could never do what I did in El Salvador in the 1980s. Services such as Reuters and Bloomberg track virtually every offer to buy or sell virtually every financial instrument in the world. If you wanted to buy an El Salvador bond today, you'd call your broker and get a quote based on the latest buy and sell orders listed on the Bloomberg screen. You'd know exactly what the market deems the value of an El Salvador bond to be at any given point in time. Your broker may not have the bond in his inventory, but she can access the inventory of every brokerage firm in the world and procure it for you.

In the mid-1980s, no one had any idea what an El Salvador bond was worth—which is to say, they had no idea what value others might attach to it. This ignorance, this information vacuum, was my bliss. The seller's price was simply a measure of how desperately he wanted to dispose of a paper promise of the government of El Salvador and the buyer's measure of how eager he was to convert his local currency into a glimmer of hope of seeing dollars down the road. The spread, my profit, was the difference between the two. In a fledgling market, with no reporting mechanisms and precious little information floating around, the spread can be enormous, and there were no regulatory or legal restrictions on how much you could make on such a transaction. Though my sellers and buyers, usually the representatives of foreign companies doing business in El Salvador, often knew each other, played golf together, or broke bread together at American Chamber of Commerce breakfasts, I knew it would take some time before they eventually started to compare notes. At the beginning, I doubt any of them even mentioned they were trying to sell or buy El Salvador bonds because the market didn't exist yet. But until the market matured it was a gold rush, and I developed a monopoly on that most precious of all commodities in any market: information. I found out who wanted to sell, who wanted to buy, and their price, and I held that information very tight to the vest.

When I returned to El Salvador in 1984, more than a decade since my stint there as a USAID loan officer, the country had changed dramatically. San Salvador had a new, modern airport, but the strong military and security presence there was the first visible evidence that the country was no longer the peaceable backwater that had charmed me in 1970. I knew, of course, that the country was in the grips of a vicious civil war—it was one reason I saw such great opportunity there—but it was sad to see. At the time, I was apolitical; the politics of the war, and of the U.S. role in it, were of no interest to me. I was an economic mercenary happy to live off of El Salvador's woes. Today, though I have made millions of dollars as a capitalist, philosophically and politically I believe that the great concentration of wealth in the hands of a few, and the widening gap between rich and poor, is unjust and breeds precisely the kind of violence that ravaged El Salvador in the 1980s.

The country was nearly devoid of tourists, rich Salvadorans were waiting out the conflict from the comfort of Miami condominiums, leaving their business interests in the hands of hired help, and fear was everywhere. In 1970, an American had nothing to fear in El Salvador. In 1984, every American had to fear for his life. Those who came to work with Salvador's poor were at the mercy of right-wing death squads, and those representing U.S. government or business interests were at the mercy of left-wing rebels. I did everything I could to be innocuous. I wore my cheap suits, I took taxis, never a hired car, and when asked, I usually told people I was from Canada. I tried to be the invisible man.

My first task was to try to locate or create a list of the holders of El Salvador's dollar-denominated bonds. In a tiny country like El Salvador, government institutions are less formidable than, say, the United States Treasury Department with its legions of employees and endless layers of bureaucracy, so it was not as difficult as you might think to walk into the Central Bank and ask for an appointment with its president. I spoke decent Spanish. A little Spanish and a little charm can go a long way, and I never had to ask for that appointment because I got what I wanted from a male secretary guarding the bank president's office.

San Salvador was and is, in many ways, a small town with a handful of business centers. Early one morning I was shaken out of bed in the wee hours by an explosion at the Sheraton Hotel, a short distance away from the Camino Real Hotel where I was staying. I put on my rumpled suit, stepped out into the steamy heat of the capital, and congratulated myself on having had the good sense not to have booked a room at the Sheraton. As I stepped out of the air-conditioned hotel, my glasses fogged up immediately and I hailed a cab. I looked like Mr. Magoo.

Every taxicab in El Salvador was a parody of itself. The driver invariably had photographs of his wife and children plastered everywhere except the front mirror, from which hangs a likeness of the Madonna. A plastic Jesus adorned the dashboard. (Salvador is a predominantly Catholic country.) The exhaust system, if it were still attached to the car, would be nonfunctional. And the radio either didn't work or was turned up to excruciating volume, which never stopped the driver from kibitzing endlessly. "Big baseball fan." "My sister lives in California. Do you know her?" "How do you like El Salvador?" However, in four decades of doing business, I have always learned something of value from cab drivers about the local economy. They are on the front lines, literally, and can tell you about the cost of living and whether foreigners are plentiful or scarce. Many cabbies have offered keen political insight as well. In societies with high unemployment, a lot of smart people are driving taxicabs.

Even at five feet nine inches, I found the backseat of the tiny Ford taxi cramped. My knees were bent up under my chin and my briefcase was clutched under my arms as we took off for the short trip to the Central Bank.

If it wasn't the Bedford Falls Savings and Loan, the Central Bank of El Salvador wasn't exactly the Bank of England, either. Sitting at a small desk outside the office of the bank president I found "Manuel Garcia," a small, proper young man crisply dressed in white shirt and slacks. I introduced myself and asked, in Spanish, if I could sit down for a minute. It was hot out, I explained, and I needed a breather.

"I would like to make an appointment to see the president," I said, smiling an ingratiating smile.

"What is the nature of your business, Mr. Smith? Why do you need to see the president? He's quite busy, as I'm sure you understand. Perhaps I can help you."

Most Salvadoran men smoke, so I offered a cigarette, which Manuel readily accepted. Never underestimate the power of schmoozing. The real power in any office lies with the secretaries and assistants whose job it is to keep the boss organized and to insulate them from unwanted visitors like me. Generally, given the chance, most people like to talk about themselves and their families. From the photograph on his desk I could see that Manuel had a young family, as did I.

"Your younger son looks about the age of my son in Boston," I said. "What's his name?"

We spent a few minutes chatting about our children and I quickly learned that Manuel's older son was studying and living in Brooklyn.

"How wonderful," I replied, "What is he studying? Is he happy there? Is he a Yankee fan? Does he plan to return to Salvador? You must be so proud of him. Here, this is my home phone number in Boston. Have your son call me and perhaps we can arrange for him to visit. Boston's lovely."

Within five minutes I had made a friend of Garcia, and when I let it drop that I was at the bank hoping to secure a list of El Salvador bondholders, he said, "I can help you with that. You don't need to take up the time of the president with such a simple request." He went to the files and produced a three-page list, kept in pencil, with the names of the bondholders, the identification numbers of the bonds they held, and the amounts. He couldn't make a copy fast enough and I couldn't believe my luck.

"If my son needs some help, can he call you from Brooklyn?" Garcia asked. "Of course," I replied. "I'd be happy to help him."

The list wasn't exactly a state secret, that much was clear, but it also wasn't published anywhere, and it was invaluable to me because each of the bondholders on the list was a potential seller. In one quick visit to the Central Bank I had the list—the critical information—needed for the "sell" side of the market I had come to create.

As was my custom, I had cabs wait for me in San Salvador. I wanted to spend as little time on public streets looking like a foreign businessman as possible, and when the meeting was over I took my briefcase, with the gold mine—the list of bondholders—inside, and scurried for the cab. It had been a good day. I knew who the potential sellers were. Their names were all on the list Garcia had given me. Now I had to find out who might be interested in buying El Salvador bonds.

The tools of my trade were remarkably low-tech in the 1980s. I solicited buyers by placing modest ads in San Salvador newspapers popular with the business class, papers such as *El Caribe*. The ads were laughably simple and self-inflating: "Multinational company is interested in selling bonds of the government of El Salvador denominated in U.S. dollars. Interested parties should contact us by writing to Box Number X at this newspaper." I never mentioned the name of my company, Turan Corporation, or my own name, part of the plan to blend into the woodwork as much as possible. Primitive as they were, these small ads launched millions of dollars of transactions in El Salvador bonds. I have always said you only need one buyer, and in my case my best customer turned out to be Xerox.

I had limited operating capital at this point in my life and I could not afford to speculate in El Salvador bonds. By this I mean I wasn't going to buy them and pray I'd be able to flip them to another buyer at a better price. I had to have my buyer lined up and I had to know his price. Then I'd find my seller and I'd know, up front, the price I could pay and still make a nice profit. It was all about the spread.

Of the ten replies I received to my first ad, the only serious inquiry was from the offices of Xerox Corporation in San Salvador. The letter indicated that Xerox was interested in purchasing El Salvador bonds with a face value of $3 million. This was great news. But Xerox was only willing to buy those bonds if it could pay for them with colones. Not so great news, but not at all surprising. Xerox, like many foreign companies, was looking for a way to convert profits in the local currency into dollars.

My discussions with Xerox were held at first through their local Salvadoran representatives, but it quickly became clear that the shots were being called at the corporate headquarters in Greenwich, Connecticut. The Salvadorans in the local office were simply minions. In any event, before I could supply the bonds, I had to know what price Xerox would pay for them.

In the cat-and-mouse game that is a negotiation over price in any transaction, you have to be prepared to endure long silences to succeed. If you are the kind of person who feels compelled to fill in awkward silences, you will typically be on the losing end of a deal. I had no idea what price I'd be able to buy ("source," in industry parlance) the bonds for—bonds I intended to flip to Xerox—so I had to know Xerox's price.

In talking with buyers, it always paid to be optimistic about El Salvador's future—the war will end, the country will stabilize with American help, peace will prevail. In talking with sellers, it always paid to be a pessimist—the country's balance of payments deficit was growing worse, the elections are coming up and the right wing may prevail and the violence will get worse, the U.S. Congress is growing impatient with Salvador's military and its human rights abuses. But I never offered an opinion, to a buyer or seller, as to what the price should be. I never said more than, "I will execute this trade at the best price possible," leaving ambiguous the question of "best for who?"

Whatever corporate strategy Xerox had devised to repatriate profits, it was clear they were serious buyers. In this first transaction, they were willing to buy $3 million (face value) in bonds for 15,300,000 colones. In other words, they were willing to pay the equivalent of $2.55 million, at the unofficial or black market exchange rate of six colones to the dollar. They didn't put it that way and neither did I, of course, but in my own mind I always had to factor the black market rate into my pricing, because the black market was the only way I was going to be able to turn such a large sum back into dollars for myself.

If the bonds performed, in a couple years Xerox would have made a nice profit (high risk, high return) plus interest, but more important, that profit would be realized in dollars. (For clarity, I have simplified the terms of the transaction somewhat.)

Now that I had my buyer and knew his price, I had to find a seller who wanted to part with $3 million in Salvador bonds at a lower price; preferably a much lower price. My goal in a transaction of this size was to pocket a profit of about $150,000, more if I could swing it. I started working my list, the one I took away from the Central Bank.

But I had an obvious problem. Xerox was only willing to pay me for the bonds in colones and the seller was going to want payment in dollars. After all, that's why almost every holder of Salvador bonds bought them in the first place. (There were some exceptions, but not many.) To make the deal work, I was going to have to come up with a lot of dollars to buy the bonds, accept colones when I resold them, and then convert those colones back into dollars at a rate that would still allow me to walk away with a profit. In other words, I was going to be stuck with the very problem companies like Xerox were trying to solve by buying Salvador bonds in the first place.

Why all this pricing and reliance on the black market? Because the Central Bank had tiny foreign reserves, which it held tightly. It was hard enough to change $100 worth of colones for dollars at the official rate of five colones to the dollar. More than $2 million? As Tony Soprano would say, "Fuhgettaboutit." To convert the colones that Xerox was going to pay me into dollars, I'd have to find a *cambista*, a money changer, who had access to large amounts of dollars, and I'd have to pay more than the official rate for each dollar. *How much more* would determine the amount of my profit, if I could make a profit at all. Since currency exchange rates, official and unofficial, can fluctuate daily, I was going to be taking a huge currency risk. I would be at the mercy of an unpredictable currency black market. In two weeks, it might cost me twice as many colones for each dollar I wanted to buy. I had to be sure the spread I was making in the bond transaction would be enough to cover my currency risk.

My working assumption when I quoted the price to Xerox was that it would cost me about six colones for each dollar I was going to have to convert, 20 percent more than the official exchange rate. So I had to find a seller willing to part with $3 million in Salvador bonds for 80 cents on the dollar, or $2.4 million. Then, if all went according to plan, I'd buy the bond for $2.4 million with dollars borrowed from a U.S. bank, sell it to Xerox for 15,300,000 colones, use those colones to buy dollars on the black market at the rate of 6 colones to the dollar, and end up with $2.55 million. After repaying the bank loan, my profit would be a handsome $150,000. But if the unofficial exchange rate ticked up to 6.5 colones per dollar before I could complete the process of converting my colones back into dollars, that $150,000 profit would not only disappear completely, I'd be $46,000 in the hole.

Cold calling is a staple of our business. From my office in Boston (I had flown home to visit my neglected family), I started making calls on my rotary-dial phone, wearing out the tips of my fingers trying to reach the bondholders on the list from the Central Bank to see who might be interested in selling their Salvador bonds. In those days, it wasn't always easy to get a call through to Central America, so I did a lot of dialing, both to El Salvador and to the European headquarters of companies doing business there.

"Good morning. This is the United States calling, Robert Smith of the Turan Corporation in Boston. May I speak to your chief financial officer, please?" I wanted the person on the other end to hear a serious American voice calling internationally. I wanted to impart *gravitas*, not come across like a local hustler, and a call from the United States really was something special back then.

When I finally reached someone who seemed to have financial management oversight, I would state my interest in buying $3 million (face amount) of Salvador bonds. Most of the bondholders expected to hold these bonds to maturity, hopefully collecting principal and interest along the way. But the war raging across the country cast considerable doubt on the government's ability to pay. Latin American countries had defaulted on debts before, notably Mexico in 1982. Dollars were scarce, and inflation was eroding the ability of small countries like El Salvador to meet its obligations. I knew that, with patience, I'd find someone who wanted to unload their bonds, and probably at a deep discount.

British American Tobacco was ready to sell. But at what price? With illiquid assets for which there is not yet an established market, such as Salvador bonds, prices are entirely subjective. There are no comparisons to be made to help establish value. For me, that's perfect. In my business, an uneducated consumer was always my best customer.

In a $3 million deal—that is, a deal for $3 million of El Salvador bonds at face value—every penny in the spread is worth $30,000. After some haggling, BAT agreed to sell me the bonds for eighty cents on the dollar. If the colon didn't fall dramatically against the dollar by the time I was able to convert the bonds, I'd have my profit of $150,000, which I would never disclose to BAT or Xerox, of course. I have made a habit of always complaining to buyers and sellers that my margins are so low, I'm practically working pro bono. The buyer should always feel like he's stolen the merchandise and the seller should believe he's sold at the highest price possible. You don't let on when you've made a good deal and you never strut.

Today, bonds are traded electronically. In El Salvador in 1984, the mechanics were far less sophisticated. Once I paid for the bonds using a check drawn on a line of credit at Shawmut Bank in Boston, I had to physically take possession of them and then deliver them to my buyer.

When the terms were settled with both BAT and Xerox, I wired the money to BAT in London. BAT then telexed an acknowledgment. With the telex in hand, I caught the next flight to Miami, and then the next Taca Airlines flight to San Salvador. Crazy as it may sound, I brought my wife with me on this trip. I didn't like being an absentee husband, though a visit to a war zone didn't promise to be very romantic, especially with me feeling the pressure of executing this transaction and being able to leave Salvador with my dignity and my wallet intact.

The trip, which I would make frequently over the course of several years as I grew the market in El Salvador, took about six or seven hours if the connections worked well. The next morning, first thing, I presented myself at the offices of BAT, showed my identification and the telex that proved I had paid for the bonds, and took possession of the bonds I would now own for a matter of hours. (Sometimes the physical bonds would be in London or elsewhere abroad. In that case, they would be sent by courier to Shawmut Bank, where I would pick them up and carry them with me to El Salvador.)

With the bonds in my briefcase I headed for Xerox. Walking around with $3 million in bearer bonds is like walking around with cash, and I was desperate to blend into the woodwork as I moved around San Salvador. I wanted to unload the hot potato in my briefcase as quickly as possible. (My wife, Salua, had been more concerned about the safety of her Louis Vuitton bags on the airport luggage carousel than about the $3 million in cash equivalent I had on me.) So I dashed around in cabs from hotel to office building to office building. I was *shvitzing* like crazy, my suit was a rumpled mess, and my glasses were fogged up in the humid air. It was a nerve-racking day trying to keep the dominos in place until I could close the transaction.

Now came the hard part. For all of my efforts, I had a bank check from Xerox in Salvadoran colones worth more than $2.5 million at the black market exchange rate, *if* I could find a way to convert it. The financial risk was enormous. It was a race against the clock. The longer it took me to find a way to get dollars for my colones, the greater the risk that my profit from the transaction would evaporate, or worse.

A falling colon was only one part of the problem. Where were all these dollars going to come from? Where would a *cambista* get those kinds of dollars? The answer was that the dollars were going to come from the pockets of Salvadoran maids working in Beverly Hills, Salvadoran gardeners in Coral Gables, and Salvadoran taxi drivers in Manhattan.

It's impossible to know how many Salvadorans, legal and illegal, were working in the United States in the mid-1980s, but it was a lot. Tiny countries like El Salvador, with few exports to sell abroad and little economic opportunity at home, end up exporting the one commodity they have a surplus of: human labor. And all of those thousands of Salvadorans working in the United States were sending home to loved ones, every month, small money orders purchased from Western Union or the U.S. Postal Service; $50 here and $100 there, sent to family in cities and small villages throughout El Salvador.

I wasn't going to rent a car and go about the country buying up dollars a few at a time with my huge stash of colones, of course. But there were clever Salvadorans who did.

It worked like this: Toward the end of the month, when the lion's share of money orders from the States arrived by mail, a small-time money changer in a village such as Acajutla would buy them from the local residents for a slightly better rate than could be obtained at a local bank—say, 5.25 colones on the dollar, whereas the official or bank rate was 5 colones. He'd aggregate them and travel to a larger town like Ilabasco, where another middleman might offer him 5.50 colones on the dollar for all of the money orders he'd collected in Acajutla. The middleman in Ilabasco, of course, was aggregating money orders from many smaller middlemen throughout his region. Then, the middleman from Ilabasco would travel to the capital, where he'd find the likes of Jose Manuel Gomez in a small office on Avenida Roosevelt in San Salvador.

A business associate in Guatemala, where I had similar exchange-rate problems with bonds I bought and sold there, had given me Gomez's name and number. "You can trust him," Ricardo told me. Though he had never personally met Gomez, Ricardo was in the same business himself in Guatemala, converting *quetzals,* the Guatemalan currency, to dollars and vice versa, a black market operation that operated quite openly, if illegally. Ricardo and his boss had done business with Gomez and found him to be trustworthy.

In every country where hard currencies like the dollar are difficult to come by, there is always the official exchange rate (even if there are precious few dollars to be exchanged) and the unofficial exchange rate, essentially a free-for-all market where the cost of a dollar is strictly a matter of supply and demand and open to the ingenuity of the buyers and sellers. Though such transactions are illegal, they are often tolerated because they grease the skids of the local economy, and those who ran the *cambio* operations in Salvador and elsewhere in Central America were typically professional businessmen who understood banking and economics.

Cambio could be a very lucrative business. With modest start-up capital, an enterprising *cambista* could change $50 million of currency a year, making a 5 percent to 10 percent spread per transaction, a pure profit of $2.5 million to $5 million a year. These weren't the black market "retail" street cambistas stepping up to tourists in the main square. They were sophisticated businessmen dealing with major corporations and financial institutions in what might be called a "parallel" market. Theirs was a high-risk/high-reward world, but the risks weren't just financial. Because they operated outside the law, the means of enforcing agreements, either between customer and cambista or partners in cambio businesses, could be ruthless. Bad checks, scams, competition—whatever the beef—justice was meted out directly and summarily. Rumors of beatings and worse swirled around this community of underground financiers.

Jose Gomez was about thirty years old when I met him in San Salvador in 1984, a neatly dressed, educated man in Salvador's ubiquitous white shirt and dark slacks, standard business dress in the capital. He spoke fluent English and had an air of casual efficiency and professionalism about him. His wasn't a cloak-and-dagger operation; he had a simple office in a converted house one floor up from the street. There was no sign on the door. Like Ricardo in Guatemala, he operated quietly but not anonymously. There was no need to. Most, if not all, of Gomez's customers—people with dollars to buy or sell—would have been the rich and powerful: judges, military officers, government officials, politicians. In other words, people in a position to need the services of a moneyman who could deliver the cash.

Though Gomez had been recommended by a trusted friend, I was still apprehensive, to say the least. I had a lot of money at stake and I was going to be handing Gomez a readily negotiable check for millions of colones that would be cashed well before I knew whether Gomez would make good on the exchange. And even if Gomez could be trusted, I was petrified that my profit could go down the drain on any bad news that sent the colon plunging. There were other cambistas in San Salvador, to be sure, but I knew even less about them than I did about Gomez. Over time, Gomez would come to be a trusted associate, a friend, and part of my bond-trading business in Salvador, but at the time he was both my best hope for securing my profit and a huge risk.

In our first meeting, I tried—as best as a paunchy, balding, five-foot-nine-inch Jewish boy from Brookline can—to strike a "don't fuck with me" pose. I may have even intimated that if he screwed me I could have him killed. Gomez was courteous enough not to laugh in my face. He was in a country where life was already cheap. You could hire a killer for $500 or a thousand bucks. I was on his turf, and if things turned sour, he'd find a way to dispatch me before I could wipe the condensation from my eyeglasses. Besides, I was very nervous, it was hot and humid, and I had soaked my clothing with perspiration. I looked as if I had showered in my clothes. I didn't exactly cut a threatening figure.

Gomez's desk was clear with the exception of three telephones and a small notebook, which sat open. A few old copies of *Time* magazine sat on a small table nearby. I could see Gomez's notebook was kept in a neat hand: columns of names, buyers and sellers, and numbers in which he reconciled his transactions, colones for dollars and vice versa.

"So, Mr. Smith," he said after we had introduced ourselves and made small talk. "How can I help a friend of my friend, Ricardo?"

The size of the transaction I described, in the neighborhood of $2 million, didn't seem to faze him, but he explained that it would have to be done over many days.

"I can't exchange more than $100,000 to $200,000 a day for you, Mr. Smith," said Gomez. "Even if I had the cash on hand, if I did your transaction all at once, it would look like there was a run on dollars and the price will shoot up. Wait here in San Salvador a couple of weeks or so and I will have your money."

Where did Gomez get *his* dollars? He'd buy all those money orders sent by Salvadorans working in the States and aggregated by small-time money dealers from the hinterlands, giving them, say, 5.75 colones on the dollars they bought for 5.50 colones from another dealer who bought them from the peasants in small towns like Acajutla for 5.25 colones. He'd deposit all those dollar money orders in a bank account he maintained at the Whitney National Bank in New Orleans, charge me about 6 colones for a dollar, and write me a check drawn on the New Orleans bank. Just like me, Gomez and all the other cambistas along the way were making money on the spread.

All of these parallel market transactions were done without receipts or documentation of any kind. Needless to say, the first time around this block, after signing over a check for more than $2.5 million worth of colones to Jose Manuel Gomez, a man I had just met in his small office in San Salvador, I was a nervous wreck. Even if I had a receipt, what was I going to do? What I was doing may have been tolerated by the powers that be in El Salvador (after all, trying to control the flow of cash is like trying to keep water out of New Orleans), but it was illegal. If Gomez took me to the cleaners, who was I going to complain to? The authorities? Gomez could easily pay them off with my own money. Despite my tough talk, I was completely at Gomez's mercy.

"Come back later this afternoon," said Gomez, "and I will have your first $150,000." Later that afternoon he made good on this promise—well, at least I had a check drawn on an American bank for $150,000. Whether the check was good I wouldn't know until I tried to deposit it back in Boston. Perhaps, I thought, this is just a confidence game and he's setting me up for something even bigger.

For the next two weeks or so I bided my time in San Salvador, hanging around the hotel pool, touring the volcanoes, and frequenting the cafes in the Zona Rosa. I cringed at the thought that a falling colon would steal my profit, so I watched the exchange rate every day. And it started, as I feared, to creep up, first to 6.1 and a few days later to 6.2 colones to the dollar. Each fluctuation caused severe palpitations. My fear of a falling colon only dissipated at the larger fear that I might not see any more money from Gomez at all—that I'd been had and that I wouldn't know it until I got back to Boston.

Every day for the next two weeks, late in the afternoon, I stopped by Gomez's office and he'd have another check for me, drawn on his New Orleans bank: $200,000 one day, $125,000 the next, until, finally, I had dollar checks drawn on the Whitney Bank worth more than $2.5 million. I was lucky that the small daily upticks in the exchange rate were matched with downticks, which meant the rate had held relatively steady.

In 1984, I had two small children, a hot-blooded Brazilian wife with expensive tastes, and very little operating capital. If Gomez's checks were bad, not only would my profit disappear, but a $2.4 million loan from Shawmut Bank, the line of credit I used to buy the bonds from British American Tobacco, would have to be repaid. The loan was secured in part by the Boston condo my family was living in. I was, as they say in poker, "all in."

I flew back to Boston, to a family I hadn't seen in several weeks, feeling like a mother bird returning to the nest with no worms for the chicks. It would take several business days to find out whether Gomez's checks were as good as his promises, days that passed so slowly I thought I would go mad.

As I said, Jose Gomez became a trusted associate and friend. He was as good as his word, and we went on to do many more transactions, just like this one, over the next several years. He often would pick up and deliver bonds for me, saving me the trip from Boston. He became my go-to guy in El Salvador, honorable, decent, and completely trustworthy. We grew quite fond of one another.

I don't know why Jose was murdered in 1988. The crime was never solved. There were only rumors of a money transaction gone bad.

As the market in Salvador bonds grew, I was sometimes buying from a seller on one floor of an office building and selling to a buyer on another floor of the same building, without the buyer or seller knowing about it. In one deal, I bought from Texaco and sold to Shell. As the crisis in El Salvador deepened throughout the 1980s, bondholders wanted an exit strategy and were happy to unload their bonds for seventy-five to eighty-five cents on the dollar. At first, when I had virtually no operating capital, I only bought Salvador bonds when I had a seller. I didn't want to risk getting stuck with the bonds myself.

After several Salvador transactions, now confident in Gomez and with some money in my pocket, I felt more comfortable if I had to hold the goods a while before reselling them. Indeed, I would cherrypick the bonds with the earliest maturities for myself. Why? Because I noticed something very interesting, something other savvy buyers also noticed, no doubt. The principal and interest being paid to the bondholders was coming not from the Central Bank of El Salvador, but in the form of checks from the United States Treasury Department. To bolster the government of El Salvador, its client, and to protect its interests in the country, the United States was going to ensure that El Salvador did not default. The real risk in these bonds was practically nil. The United States was virtually guaranteeing they would be paid—and paid on time. On top of that, the bonds with the earliest maturities were often being called and paid in full before the due date. With the big boys at Citibank, Morgan Stanley, and the other major investment banks out of the game—too dangerous, stakes too small—I had the playing field to myself, and what a field of dreams it proved to be.

The word *globalization* wasn't part of the lexicon in the mid-1980s, though one could argue that the process of globalization has been going on at least since the days that Spanish ships carried spices back from the Orient. But globalization as we know it today—integrated, global markets linked electronically and operating twenty-four hours a day, seven days a week—was still around the bend in 1984, at the height of my El Salvador business.

One can look back today and see clearly that the development of the global economy has not simply paralleled the emergence, growth, and pervasive integration of digital technologies into our lives: Rather, the global economy as we know it *owes its very existence* to the digitization of information. When the tools of my trade were the rotary phone, the telex, and an airline ticket, it took a lot of sweat and chutzpah to prowl around in the dark corners of the global economy. And they were dark precisely *because* information was scarce and easily held close to the vest once you had it. When I bought an El Salvador bond from Texaco and sold it to Shell, only a handful of people ever knew the buy or sell price, and only I knew *both*. Today, anyone with a computer can know the buy and sell price within seconds, not only because the information can travel at the speed of light, but because clever people set up trading, reporting, and regulatory mechanisms that exploit the capabilities of digital technologies. The game today is played on a digital playing field, because that's where all the players have congregated. No one in their right mind today would buy or sell a bond to me in any other way than through one of these highly transparent markets, and that's why my spreads are now a tiny fraction of what they once were. Today, I need an optometrist to see the spreads.

In El Salvador in the 1980s, I also learned an important lesson about capital—financial capital and human capital. Money, and people, will find ways around any barriers erected to keep them at home when the financial incentives are sufficiently high. Developing or poor countries often impose strict limits on the amount of local currency its citizens can convert into dollars from the Central Bank in order to maintain a certain level of foreign exchange required to buy desperately needed imports. They also typically place strict limits on the amount of foreign currency their citizens can take out of the country to prevent the flight of such foreign reserves. And they try, as El Salvador did, to fix exchange rates and impose arbitrary price controls to keep inflation under control. Such measures may work temporarily, or partially, by criminalizing natural economic behavior. But eventually and inexorably, people will act to protect their assets and feed their families and will find ways around such artificial barriers. Whether it's financial capital or human capital, it will move across borders.

More and more countries have learned this lesson over the years, at least with respect to currency exchange controls. They simply don't work and, in fact, tend to exacerbate the very problem they are designed to control: currency flight. Show me a country with strict currency exchange controls or with an arbitrarily fixed exchange rate and I will show you a thriving currency black market.

In countries like El Salvador, and other developing countries, including some on our own borders, such as Mexico, human labor is a major export and a critical source of foreign exchange as workers send some of their hard-earned wages to family back home. When I was exchanging some $2.5 million worth of colones through Jose Manuel Gomez, I already knew that the dollars I would buy were coming from the small remittances of Salvadoran workers in the United States. I had encountered precisely the same situation in Guatemala a year earlier. I had gone into business with a former Guatemalan finance minister to start an ill-fated business called American Check, a retail operation designed to facilitate the transfer of remittances of immigrant workers in the United States. The keystone cops story of American Check is told in Chapter 4, but the enormous impact of foreign worker remittances on the global economy wasn't apparent to me thirty years ago.

Such remittances remain a powerful force in the global economy today, though one easily overlooked in the vast ocean of money that sloshes electronically across international borders every day. In 2003, *Global Development Finance*, a publication of the World Bank, put the total of foreign worker remittances globally at $72.3 *billion* in 2001, with $18 billion of that amount coming from foreign workers in the United States. In 2006, the amount of total remittances soared to just over $300 billion, according to a report by the International Fund for Agricultural Development and the Inter-American Development Bank. Some people argue that such remittances, which exceed the amount of assistance to developing-world countries through governments and multilateral institutions, are a far more efficient mechanism for strengthening the economies of developing countries than foreign aid, because the money passes outside of large bureaucracies and directly into local hands, where it is spent or invested in the local economy. Much of this money—though how much is impossible to measure—inevitably finds its way back to the United States, often in the form of the purchase of American-made goods or, in my case, as checks stuffed in a briefcase.

In smaller countries, such as Nicaragua and El Salvador, remittances practically sustain the national economy and are a more predictable flow of capital than, say, private investment. In 2001, for example, remittances represented 13.8 percent of El Salvador's gross domestic product and 16.2 percent of Nicaragua's. Indeed, remittances are El Salvador's biggest industry, worth more than $2.8 billion a year and engaging nearly a third of all Salvadorans. An astonishing 2 million of El Salvador's 6.5 million people are living and working in the United States.

This is not to say that remittances have solved El Salvador's chronic poverty or closed the gap between rich and poor. Far from it. But El Salvador's economic and social problems would be far worse without them. And with many people in the United States proposing a virtual Berlin Wall along the southern border, we would do well to remember that no wall, no law, no border patrol can reverse the overwhelming power of people in pursuit of a livelihood. You may as well try to legislate the ocean tides. Such measures may be successful at the margins in restricting the flow of people, but there may also be unintended consequences. Those railing for get-tough immigration policies may be underestimating the stabilizing effect of foreign worker remittances in countries that less than thirty years ago were a major source of instability in the Western Hemisphere. People stuck in their own economically impoverished countries with no work, and prevented from moving freely across borders to find work, will eventually create the very kind of social and political unrest that made El Salvador such a violent and war-torn country in the 1980s.

I also learned one final lesson in El Salvador that has propelled me, sometimes recklessly, sometimes with more deliberate consideration, into other parts of the world where economic chaos, war, or political instability made it counterintuitive to seek my fortune there: No economy is too small, no political crisis is so dire, and no country is too bankrupt for a solo operator like me to find riches among the ruins.