INTRODUCTION

The great Chinese military tactician Sun Tzu once wrote, "The quality of a decision is like the well-timed swoop of a falcon." In the realm of international banking, where I have spent more than five decades of my career, I have had to swoop into difficult situations over and over again.

My mission has always been to build—to help developing economies repay their staggering debts, to restore their access to credit markets, and to help them return to growth and obtain access to new markets. I have tried to act with falconlike precision to warn institutions, and not just my own, of impending crises so that they could act to stave off the repercussions. Also, I have always worked to take advantage of opportunities to expand financial services throughout the world.

All of these situations, both at home and abroad, have taught me many lessons. And it is these lessons, along with the traits and qualities that I have developed over these many years, that I now seek to pass on to others.

The following chapters explore these lessons through a series of anecdotes—experiences from my career that illustrate key themes that I would like to impart. The trials and errors, and the successes and failures along the way, collectively provide a path of instruction for those both in the international financial community and outside it.

It is important to note that these lessons are not relevant just for bankers, managers, or investors; they apply to a whole host of situations in any number of contexts. For example, negotiating situations are the same the world over, whether or not they have to do with debt restructuring.

The common theme of all of them can be summed up with one of my favorite expressions: *tempus fugit,* the Latin for "time flies." In a crisis, the clock is always working against you. Time is your enemy. Sometimes a crisis takes a long time to build, but when it hits, its impact is instantaneous and immediate. Therefore, crises, be they economic, political, or both, require decisive time management. They require planning and communication. They require immediate action. In a crisis, you must make decisions quickly, communicate them clearly, and implement them rapidly. You must have a credible plan and communicate it immediately. You must have the conviction of the correctness of your actions, and work persistently and tirelessly to implement them. In fact, for all the lessons stated here, there was a key time and place for the actions taken, which is perhaps the most relevant lesson of all. As the Book of Ecclesiastes in the Bible states, there is a time and a purpose for everything:

> A time to sow and a time to reap, . . .
> a time to tear down and a time to build, . . .
> a time to search and a time to give up, . . .
> a time to tear and a time to mend, a time to be silent
> and a time to speak.

I think about these verses every time I take action. It is by knowing when and how to act—which time is for which purpose—that we can be most effective.

Another tendency that has served me well has been sheer tenacity, which comes through in so many of the lessons here. Over the years, nothing in my career has been truer than the philosophy that persistence pays. In countless late-night-into-early-morning negotiations to restructure the debts of Mexico, Brazil, Uruguay, Peru, South Korea, and many other countries, I became well known for carrying on negotiations, refusing to break for sleep, until we came to a consensus. I knew well that at 4 a.m., the term to which a holdout participant has been so strenuously objecting suddenly becomes more palatable. At the same time, I always knew that it was important in negotiations to concede just enough that everyone felt that he or she came away from the table with at least a small victory. This is my counsel to those who would follow in similar situations. Recognize when persistence will result in a breakthrough, and stick with it unflaggingly until you get one.

In part, knowing what to do and when to act comes down to character. I believe that character is formed at a young age, but is developed and enriched with each new experience. One of the reasons for my love of history, which has served me well in countless meetings with international officials over the years, is my father, Edward Reginald, who was known as Reg. He was very much an internationalist. He had been the youngest Marine Corps major in World War I. During World War II, he rejoined the service, this time in the army, which asked him to become part of a planning group for the North African campaign. In that capacity, he led an Allied battalion of combat engineers that landed in Oran during the invasion of North Africa, which culminated in the defeat of the German Afrika Korps.

We discussed history and international affairs at the dinner table at our home on Long Island when I was a boy. My father traveled all over the world for Standard Oil of California as a first mate and then as captain on oil tankers, going to places such as China and Brazil, among others. He worked for Royal Dutch Shell and Shell-Mex in Mexico, Venezuela, and the Dutch West Indies (before it came to be called Netherlands Antilles).

And he loved military history. On a radio show broadcast on WINS in New York, where he was a military commentator before the U.S. entrance into World War II, he predicted almost to the day—February 15, 1942—the fall of Singapore to Japanese troops. The commander of the major British base in the Pacific, Lieutenant General A. E. Percival, had believed that the Japanese would invade the island by sea, but instead the Japanese advanced down the Malay Peninsula and found the garrison inadequately defended from the rear—just as my father had foretold.

As a result of these enthralling discussions, I would often stay up late with a flashlight, reading history books in bed, until my parents came in and told me to go to sleep. To this day, I am still an avid reader of military history, and of history in general.

When I was a freshman at Brown University, of course majoring in history, I decided that I wanted to see the world for myself. I got my seaman's papers and determined to work on a ship sailing around the world, which I did in the summers after my freshman and sophomore years. I couldn't get on a U.S. ship, so I found Danish freighters that would take me. In order to survive on a ship full of Danes, Norwegians, Swedes, Spaniards, and men of other nationalities, I had to learn to get along with people—their customs, their mores, and how they operated in close quarters. In a situation like that, you grow to respect people no matter who they are or where they come from.

One year my bunkmate was a Spaniard, from Spanish Morocco, so I practiced my Spanish with him. We sailed through the Panama Canal and down the coast of South America, one year down the east coast and another year down the west coast. I gained fluency in the language in the ports of call, in Panama, Chile, Peru, Colombia, Argentina, and Uruguay. I learned some Portuguese in Brazil as well. These experiences have served my career in ways that I could not have imagined at the time. As a result, my recommendation that people who are working in foreign countries take the time to learn the language and get to know the people is one of the key lessons of this book.

I didn't set out intending to be a banker. I had busted up my knee playing lacrosse just before graduation, so I couldn't go into the military, which was what I had planned to do. I needed a job, and it was a recession year. I was lucky to be able to get a job interview with George Moore at First National City Bank of New York (renamed Citibank in 1976), who was then the executive vice president for overseas operations and who would later become chairman.

"Are you a worker?" Moore asked me. "We have plenty of talkers in this bank, but what we need are workers."

Obviously, I said yes. I needed the job. Because of my Spanish-language ability, I was assigned to the East Caribbean desk in New York and was soon dispatched to Venezuela. It turned out that I liked banking and wanted to make a career of it.

Those of us who worked in Latin America between the 1950s and the 1970s remember the political unrest, military governments, and economic models that favored closed markets and heavy public-sector involvement. Venezuela, as a Latin American democracy, was the site that President Kennedy chose to initiate his Alliance for Progress, a program of aid and development aimed at improving U.S. relations with Latin America. I remember that event well: I was a young Citibank branch officer in Venezuela in those days, and I was asked to be among the group that would greet JFK at the airport in Caracas.

It was a hot, tense occasion. Guerrillas backed by Cuba's Fidel Castro had broadcast threats against Kennedy's life. Huge crowds, hoping for a glimpse of the president, lined the roads, and the sun reflected off the bayonets of nervous soldiers cordoning the airfield. When Air Force One landed, Kennedy announced that he had arrived in the footsteps of Franklin Delano Roosevelt, who had declared that the United States was dedicated to a "policy of the good neighbor" toward Latin America. I felt a surge of pride that has stayed with me my entire life. Later, when he vowed, through the alliance, "to make all our hemisphere a bright and shining light over all the world," our hopes were high.

Yet the economic model that most Latin American countries chose to follow in those years proved faulty. What appeared to be promising economic growth in the late 1960s and early 1970s gave way to bloated and inefficient public sectors, highly protected industries, a dearth of private enterprises, and huge debts incurred principally by public-sector companies. As a result, when faced with high interest rates and a global recession at the beginning of the next decade, many countries were unable to repay their international obligations, producing the debilitating debt crisis of the 1980s.

We worked hard to get Latin America through that dark period, but it was the people of Latin America and their governments who finally recognized the need for basic structural economic reforms. Dedicated leaders in many Latin American countries endeavored to restructure their debt, privatize industries, build institutions, and open their markets to the free movement of money and goods, as we will see in the lessons that follow.

The result is that capital flows today are directed mainly toward the private sector, with a new emphasis on equity rather than debt. Modern technology, better management, and the creation and expansion of local capital markets are guiding these new capital flows toward more productive uses. Capital is now allocated to investment in plants and equipment rather than financing deficits, and investors today are afforded additional protection through improved transparency in accounting rules and disclosure requirements. However, as the events of 2008–2009 showed, there is still an urgent need for international accounting standards and regulatory reforms.

In Latin America during the 1980s, a significant change in governance practices occurred, as many capitals went from military governments to democracies. At the same time, there was a massive opening up of the economies to structural economic reform and privatization.

Reform does not happen overnight. Countries need time, both to implement the structural adjustments that are necessary for reform and to sort through the inevitable failures associated with such a tremendous undertaking.

The adjustments to these countries' debt obligations that we undertook—and that are the subject of so many of the lessons here—bought them time. Yet in several cases, Latin American countries have been backsliding. Only the future will reveal whether these lessons will remain absorbed in the countries in which they have taken hold, and how permanently and broadly economic reform will spread in the rest of the region.

Still, all who went through the crises of the 1980s and 1990s can take some pride in what was accomplished. The process of resolving the debt crises has benefited both the countries and their creditors alike. In retrospect, though, in some cases the reform measures were probably overly austere and imposed undue hardships on the countries' citizens. The lessons learned here should be taken into account for future economic reform packages supported by the IMF and the World Bank.

During the early years of the foreign debt crisis, some experts suggested that a cookie-cutter solution could be applied to every country. But it soon became apparent that each country was unique. From country to country, economic policies, by necessity, reflected the differing realities of the countries themselves. Over and over again, I urged borrowers and lenders alike to understand the need for individual solutions in order to help both debtors and creditors maximize their recoveries. I largely succeeded.

In the early 1980s, securitization was very different from the mechanisms and products used today, where the secondary markets for developing-country debt are among the more enduring legacies of international debt crises. Liquidity has added considerable value.

The first step toward securitization of the foreign debt came in 1984, when Mexico and its creditor banks agreed, as part of a multiyear restructuring, to allow the conversion of Mexican debt into equity. Chile, Argentina, and other countries later used this restructuring instrument in their privatization efforts. This innovation, which my colleagues and I helped to implement, heralded a market-based solution to the recurring debt problems of the developing world. The main idea was that all participants should accept the use of market solutions to encourage and retain voluntary flows of private capital. In a market environment, confidence is the name of the game.

In the succeeding years, the market for Latin American and developing-country debt developed into a global market, with annual turnover of more than half a trillion dollars by the mid-1990s. Today, it is no longer the commercial banks that hold the majority of emerging-market debt. It is held by ordinary investors and institutions in the form of mutual funds, hedge funds, and pension funds.

This new financial architecture required efforts to prevent new crises from developing. I urged that financial firms improve their risk-management practices and integrate their country analysis and risk-measurement systems more closely to avoid unsound lending. Unfortunately, these processes, which Citi called “Windows on Risk,” did not carry over past the late 1990s.

I learned early on that in a crisis, it is important not to cut and run. During various foreign debt crises over the years, I watched as many lenders closed offices and sold off loans at a loss to put the problems behind them. But when the debtors’ economies recovered again, many of the same institutions were clamoring to get back in. The temptation to wipe the slate clean was keenly felt when the market battered bank stocks that had high nonperforming-loan ratios.

I always warned lenders to resist the temptation to sell prematurely, and I advocate the same today. At the same time, I urged them not to be afraid to deal in the marketplace. That meant that they should first apply objective analysis to the decision about how and when to dispose of assets, whether performing or nonperforming, including those that had been acquired by default. Clearly, time and time again, economic and market trends were not accurately assessed when the initial financing and investment decisions were being made. When owners performed an analysis of the time value of money—particularly as it pertained to the real estate market over the years—they often found that extra time afforded them the opportunity to find buyers, lessening the impulse to cut and run. These lessons have strong parallels to the situation that the world finds itself in today.

Flawed analyses should be recognized and not repeated. In most cases, those who stay in for the long haul stand a better chance of realizing the full value of their assets. They will be in the best position to profit when the market recovers.

Much of my career was spent managing through crises, which required a study of the underlying causes and drivers of the problems. This led naturally to a focus on crisis prevention, and although in some cases my advice was heeded, in other cases it was ignored. For example, beginning in 2005, I was among the first to see the warning signs that rocky times were on the horizon. A column titled "The Curse of

Cheap Credit?" by Robert J. Samuelson in the *Washington Post* on June 2, 2005, quoted me as saying that we were on our way to a repeat of past crises: "The speculation here is more evident than people seem to realize." What I meant, of course, was that early on, it was apparent to me that cheap credit was accumulating too quickly and that eventually the economy would face its reckoning. The *Wall Street Journal* quoted me in another article on June 16, 2005, as expressing concern about a growing housing bubble. "Lenders and investors have to be careful that they exercise proper risk management," I said. "If they don't, they're going to get burned."

Then, in April 2006, while attending a meeting of the Inter-American Development Bank in Brazil and after discussions with reporters there, I was quoted in the *Financial Times* as urging the world's biggest financial institutions to be "very careful." I noted the size of the U.S. current-account and fiscal deficits, and the possibility of slower growth in emerging markets. "The days of easy money are over," I said. "We are in a situation similar to that which existed in the spring of 1997 when threats existed to market stability and a lot of people didn't want to see it. I am not predicting a new Asia crisis, but it is interesting to see the similarities that are present. There is a need for lenders and investors to be prudent."

I warned of impending crisis again in an op-ed in the *Financial Times* on March 29, 2007. It was titled "A Market Correction Is Coming, This Time for Real." I said that periods of economic expansion tend to last between five and seven years, and that we were entering the sixth year of expansion, which would make 2008 the seventh. I wrote:

> Pockets of excess are becoming harder to ignore. Problems in the housing and mortgage area such as the sub-prime sector in the U.S. are one such example of excess that should come as no surprise. As lenders and investors inevitably become more discriminating, liquidity will recede and a number of problems will surface.

I ended with a prediction. "What is clear to me is that in the next year, a material correction in the markets will occur," I insisted. "This is clearly the time to exercise greater prudence in lending and to resist any temptation to relax standards." These comments were widely read around the world, having been picked up by other publications.

Shortly after this, I was invited by the CEO of Scotiabank, Rick Waugh, to address his board of directors at their annual off-site meeting. I handed out copies of my op-ed and proceeded to reiterate my position: that a big market correction was coming. I am told that my concerns about the economic vulnerabilities of the market caught their attention and impressed on them the need for caution in their risk-management activities.

Most of the banking community didn't think that a correction was coming that quickly. Their rationale was that it took a while for Japan's bubble to burst, so they didn't think the one in the U.S. market would collapse so fast. They thought they had more time.

I was called a Cassandra by many in the press and in the news. But the lesson here is that it's better to be right early than to be wrong later.

While in some cases I warned of coming crises and was listened to, other times I was not.

What is clear is that financial institutions need to do a much better job of risk management and corporate governance. And regulators need to do a better job of regulatory oversight. We need sound, smart, and realistic regulation that is implemented on a continual basis, to ensure that risks are managed appropriately, yet innovation is not stifled.

As institutions go about fixing these problems, they find that they are also changing business fundamentals in a positive way. In a very real sense, they're creating a future from the wreckage of the past.

The first lesson that follows in the pages ahead, regarding the need for bold leadership, requires decisions that can be implemented in any context, from the conference table to the world beyond.

The same broad applicability pertains to the need for vision (Lesson 2); to the ability to execute in a timely fashion (Lesson 3); to the need for prompt, proactive, and comprehensive action (Lesson 4); and to the importance of standing up for what is right (Lesson 5). Most of the stories that exemplify these lessons have elements of the other lessons, too, or else the outcomes would not have been successful.

In reflecting upon a lifelong career, it is just as important to recount one's failures as to recount one's successes. It was John F. Kennedy, then a candidate for president, who introduced a new word into the American lexicon in a speech in April 1959. The word was *weiji,* and it is central to Lesson 6.

> When written in Chinese, the word *crisis* is composed of two characters. One represents danger, and the other represents opportunity.

Pronounced "way-GEE," this word is a handy tool, a call to action for those who are sitting on the sidelines, unable to understand that nowhere is the opportunity to act more promising than in a crisis. Acting on opportunity is clearly a success. But not seizing opportunity is a failure. This has been the case over and over in my career. Citibank's branch openings throughout Eastern Europe are good examples of seizing opportunities in a positive fashion.

Over the years, I have been able to use my love of international affairs, of foreign languages, and of history to good effect. In Lesson 7, I show how in numerous discussions with Chinese officials, it was my keen interest in and knowledge of Chinese culture and history that helped me to secure Citibank's access to new markets in China. In Venezuela, my knowledge of the language, the history, and the culture prevented Citibank from being nationalized in the 1970s.

Finally, the consensus-building techniques that I employed with the committees I chaired to work out South Korea's and the Latin American countries' debt payments—elaborated on in Lesson 8—are universal. For me, those techniques were critical in resolving issues at board meetings at Northfield Mount Hermon School in western Massachusetts, the prep school I attended as a teenager and for which I served as the board chair as an adult. I have employed the same methods while serving as chairman of various other boards, such as the Council of the Americas, the Americas Society, the U.S.-Hong Kong Business Council, and the U.S.-Korea Business Council; as first vice chair of the Institute of International Finance; and as president of the Bankers' Association for Finance and Trade and the Venezuelan American Chamber of Commerce, among others.

The world is a far different place from what it was back in 1957, when I began my career with Citibank. We have been through the oil shocks of the 1970s; the recessions of the 1980s and early 1990s; the end of the cold war, which fundamentally changed the dynamics of global finance; and now the Great Recession. We currently operate with the primacy of capitalism as our economic driver, rather than a bifurcated system that hindered global development. Yet as we have seen from the events that gave the world a financial shock in 2008 and the challenge to the euro precipitated by Greece's troubles in 2010, the potential for crisis has not abated. The new sets of challenges may seem different, but in fact they are similar. They require the kinds of bold leadership, decisive action, and tenacity that I have lived by for more than five decades as a global banker and that are described in this book.