

characterized the IMF's entire program of structural adjustment as a form of mass torture in which "‘screaming-in-pain’ governments and peoples [are] forced to bend on their knees before us, broken and terrified and disintegrating, and begging for a sliver of reasonableness and decency on our part. But we laugh cruelly in their face, and the torture goes on unabated."

After the letter was published, the government of Trinidad commissioned two independent studies to investigate the allegations and found that they were correct: the IMF had inflated and fabricated numbers, with tremendously damaging results for the country.²³

Even with this substantiation, however, Budhoo's explosive allegations disappeared virtually without a trace; Trinidad and Tobago is a collection of tiny islands off the coast of Venezuela, and unless its people storm the headquarters of the IMF on Nineteenth Street, its complaints are unlikely to capture world attention. The letter was, however, turned into a play in 1996 called *Mr. Budhoo's Letter of Resignation from the I.M.F. (50 Years Is Enough)*, put on in a small theater in New York's East Village. The production received a surprisingly positive review in *The New York Times*, which praised its "uncommon creativity" and "inventive props."²⁴ The short theater review was the only time Budhoo's name was ever mentioned in *The New York Times*.

LET IT BURN

THE LOOTING OF ASIA AND "THE FALL OF A SECOND BERLIN WALL"

Money flows to where opportunity is, and, right now, Asia appears to be cheap.

—Gerard Smith, a financial institutions banker at UBS Securities in New York, on the Asian economic crisis of 1997–98¹

Good times make bad policy.

—Mohammad Sadli, economic adviser to Indonesia's General Suharto²

They seemed like simple questions. What can your salary buy? Is it enough for room and board? Is there any left over to send money back to your parents? How about transportation costs to and from the factory? But no matter how I phrased them, the answers I kept getting were "It depends." Or "I don't know."

"A few months ago," a seventeen-year-old worker who sewed Gap clothing near Manila explained, "I used to have enough money to send a little bit home to my family every month, but now I don't even make enough to buy food for myself."

"Are they lowering your wages?" I asked.

"No, I don't think so," she said, a little confused. "It just doesn't buy as much. The prices keep rising."

It was the summer of 1997, and I was in Asia researching the working conditions inside the region's booming export factories. I found workers facing a problem bigger than forced overtime or abusive supervisors: their countries

were rapidly falling into what would soon become a full-fledged depression. In Indonesia, where the crisis was even deeper, the atmosphere felt dangerously volatile. The Indonesian currency dropped between morning and nightfall over and over and again. One day factory workers could buy fish and rice, and the next day they were subsisting on rice alone. In casual conversations at restaurants and in taxis, everyone seemed to have the same theory about who was to blame: “the Chinese,” I was told. It was ethnic Chinese people, as Indonesia’s merchant class, who seemed to be profiting most directly from the rising prices, and so they were bearing the brunt of the anger. This is what Keynes had meant when he warned of the dangers of economic chaos—you never know what combination of rage, racism and revolution will be unleashed.

Southeast Asian countries were particularly vulnerable to conspiracy theories and ethnic scapegoating because, on the face of it, the financial crisis had no rational cause. On television and in newspapers, analysis kept referring to the region as if it had contracted some mysterious but highly contagious disease—“the Asian Flu,” as the market crash was immediately labeled, later upgraded to “the Asian Contagion” when it spread to Latin America and Russia.

Just weeks before it all went wrong, these countries were being held up as paragons of economic fitness and vitality—the so-called Asian Tigers, globalization’s most robust success stories. One minute, stockbrokers were telling their clients that there was no surer route to wealth than sinking your savings in Asian “emerging market” mutual funds; the next they were cashing out in droves, while traders “attacked” the currencies—the baht, the ringgit, the rupiah—creating what *The Economist* called “a destruction of savings on a scale more usually associated with a full-scale war.”³ And yet, within Asia’s Tiger economies, nothing observable had changed—for the most part, they were still run by the same crony elite; they had not been hit by a natural disaster or war; they were not running large deficits—some had none at all. Many large conglomerates were carrying heavy debts, but they were still producing everything from sneakers to cars, and their sales were as strong as ever. So how was it possible that, in 1996, investors had seen fit to pour \$100 billion into South Korea and then, the very next year, the country had a negative investment of \$20 billion—a discrepancy of \$120 billion?⁴ What could explain this kind of monetary whiplash?

It turned out that the countries were victims of pure panic, made lethal by the speed and volatility of globalized markets. What began as a rumor—that

Thailand did not have enough dollars to back up its currency—triggered a stampede by the electronic herd. Banks called in their loans, and the real estate market, which had been growing so quickly that it had become a bubble, promptly popped. Construction ground to a halt on half-built malls, skyscrapers and resorts; motionless construction cranes loomed over Bangkok’s crowded skyline. In a slower era of capitalism, the crisis might have stopped there, but because mutual fund brokers had marketed the Asian Tigers as part of a single investment package, when one Tiger went down, they all did: after Thailand, panic spread and money fled from Indonesia, Malaysia, the Philippines and even South Korea, the eleventh-largest economy in the world and a star in the globalization firmament.

Asian governments were forced to drain their reserve banks in an effort to prop up their currencies, turning the original fear into a reality: now these countries really were going broke. The market responded with more panic. In one year, \$600 billion had disappeared from the stock markets of Asia—wealth that had taken decades to build.⁵

The crisis provoked desperate measures. In Indonesia, impoverished citizens stormed urban stores and took what they could carry. In one particularly horrific incident, a Jakarta shopping mall caught fire while it was being looted, and hundreds of people were burned alive.⁶

In South Korea, television stations ran a massive campaign calling on citizens to donate their gold jewelry so that it could be melted down and used to pay off the country’s debts. In just a few weeks, 3 million people had handed over necklaces, earrings, sports medals and trophies. At least one woman donated her wedding ring, and a cardinal donated his golden cross. The television stations ran kitschy give-away-your-gold game shows, but even with two hundred tons of gold collected, enough to drive down the world price, Korea’s currency continued to plummet.⁷

As had happened during the Great Depression, the crisis led to a wave of suicides as families saw their life savings disappear and tens of thousands of small businesses shut their doors. In South Korea, the suicide rate went up by 50 percent in 1998. The spike was steepest among people over sixty, with older parents attempting to lessen the economic burden on their struggling children. The Korean press also reported an alarming increase in family suicide pacts in which fathers led their debt-ridden households in group hangings. Authorities pointed out that since “only the [family] leader’s death is classified as suicide while the rest are listed as murders, the actual number of suicides is far higher than the statistics released.”⁸

Asia's crisis was caused by a classic fear cycle, and the only move that might have arrested it was the same one that had rescued Mexico's currency during the so-called Tequila Crisis of 1994: a quick, decisive loan—proof to the market that the U.S. Treasury would simply not let Mexico fail.⁹ No such timely move was forthcoming for Asia. In fact, as soon as the crisis hit, a surprising array of heavy hitters from the financial establishment stepped forward with a unified message: Don't help Asia.

Milton Friedman himself, now in his mid-eighties, made a rare appearance on CNN to tell the news anchor Lou Dobbs that he opposed any kind of bailout and that the market should be left to correct itself. "Well, Professor, I can't tell you what it means to have your support in this semantic discussion," said an embarrassingly starstruck Dobbs. The let-them-sink position was echoed by Friedman's old friend Walter Wriston, former head of Citibank, and George Shultz, now working alongside Friedman at the right-wing Hoover Institution and a board member at the brokerage house Charles Schwab.¹⁰

The view was openly shared by one of Wall Street's premier investment banks, Morgan Stanley. Jay Pelosky, the firm's hotshot emerging-market strategist, told a conference in Los Angeles hosted by the Milken Institute (of junk bonds fame) that it was imperative that the IMF and the U.S. Treasury do nothing to lessen the pain of a crisis of 1930s proportions. "What we need now in Asia is more bad news. Bad news is needed to keep stimulating the adjustment process," Pelosky said.¹¹

The Clinton administration took its cue from Wall Street. When the Asia Pacific Economic Cooperation Summit was held in November 1997 in Vancouver, four months into the crash, Bill Clinton enraged his Asian counterparts by dismissing what they viewed as an economic apocalypse as "a few little glitches in the road."¹² The message was clear: the U.S. Treasury was in no rush to stop the pain. As for the IMF, the world body created to prevent crashes like this one, it took the do-nothing approach that had become its trademark since Russia. It did, eventually, respond—but not with the sort of fast, emergency stabilization loan that a purely financial crisis demanded. Instead, it came up with a long list of demands, pumped up by the Chicago School certainty that Asia's catastrophe was an opportunity in disguise.

Back in the early nineties, whenever advocates of free trade wanted a persuasive success story to invoke in debates, they invariably pointed to the Asian Tigers. These were the miracle economies that were growing by leaps and bounds, supposedly because they had flung open their borders to unrestricted

globalization. It was a useful story—the Tigers were certainly developing with whirlwind speed—but to suggest that their expansion was based on free trade was fiction. Malaysia, South Korea and Thailand still had highly protectionist policies that barred foreigners from owning land and from buying out national firms. They had also maintained a significant role for the state, keeping sectors like energy and transportation in public hands. The Tigers had also blocked many foreign imports from Japan, Europe and North America, as they built up their own domestic markets. They were economic success stories unquestionably, but ones that proved that mixed, managed economies grew faster and more equitably than those following the Wild West Washington Consensus.

The situation did not please Western and Japanese investment banks and multinational firms; watching Asia's consumer market explode, they understandably longed for unfettered access to the region to sell their products. They also wanted the right to buy up the best of the Tigers' corporations—particularly Korea's impressive conglomerates like Daewoo, Hyundai, Samsung and LG. In the mid-nineties, under pressure from the IMF and the newly created World Trade Organization, Asian governments agreed to split the difference: they would maintain the laws that protected national firms from foreign ownership and resist pressure to privatize their key state companies, but they would lift barriers to their financial sectors, allowing a surge of paper investing and currency trading.

In 1997, when the flood of hot money suddenly reversed current in Asia, it was a direct result of this kind of speculative investment, which was legalized only because of Western pressure. Wall Street, of course, didn't see it that way. Top investment analysts instantly recognized the crisis as the chance to level the remaining barriers protecting Asia's markets once and for all. Pelosky, the Morgan Stanley strategist, was particularly forthright about the logic: if the crisis was left to worsen, all foreign currency would be drained from the region and Asian-owned companies would have either to close down or to sell themselves to Western firms—both beneficial outcomes for Morgan Stanley. "I'd like to see closure of companies and asset sales. . . . Asset sales are very difficult; typically owners don't want to sell unless they're forced to. Therefore, we need more bad news to continue to put the pressure on these corporates to sell their companies."¹³

Some saw the breaking of Asia in even grander terms. José Piñera, Pinochet's star minister who was now working at the Cato Institute in Washington, D.C., greeted the crisis with undisguised glee, pronouncing that "the

day of reckoning has arrived.” In Piñera’s eyes, the crisis was the latest chapter in the war that he and his fellow Chicago Boys had started in Chile in the seventies. The fall of the Tigers, he said, represented nothing less than “the fall of a second Berlin Wall,” the collapse of “the notion that there is a ‘Third Way’ between free-market democratic capitalism and socialist statism.”¹⁴

Piñera’s was not a fringe perspective. It was openly shared by Alan Greenspan, chairman of the U.S. Federal Reserve and probably the single most powerful economic policy maker in the world. Greenspan described the crisis as “a very dramatic event towards a consensus of the type of market system which we have in this country.” He also observed that “the current crisis is likely to accelerate the dismantling in many Asian countries of the remnants of a system with large elements of government-directed investment.”¹⁵ In other words, the destruction of Asia’s managed economy was actually a process of creating a new American-style economy—birth pangs for a new Asia, to borrow a phrase that would be used in an even more violent context a few years later.

Michel Camdessus, who as head of the IMF was arguably the world’s second most powerful monetary policy maker, expressed a similar view. In a rare interview, he spoke of the crisis as an opportunity for Asia to shed its old skin and be born anew. “Economic models are not eternal,” he said. “There are times when they are useful and other times . . . where they become outdated and must be abandoned.”¹⁶ The crisis sparked by a rumor that turned fiction into fact apparently provided such a time.

Eager not to let this opportunity slip by, the IMF—after months of doing nothing while the emergency worsened—finally entered into negotiations with the ailing governments of Asia. The only country to resist the fund in this period was Malaysia, thanks to its relatively small debt. Malaysia’s controversial prime minister, Mahathir Mohamad, said that he did not think he should have to “destroy the economy in order that it should become better,” which was enough to brand him as a raving radical at the time.¹⁷ The rest of Asia’s crisis-struck economies were too desperate for foreign currency to refuse the possibility of tens of billions in IMF loans: Thailand, the Philippines, Indonesia and South Korea all came to the table. “You can’t force a country to ask you for help. It has to ask. But when it’s out of money, it hasn’t got many places to turn,” said Stanley Fischer, who was in charge of the talks for the IMF.¹⁸

Fischer had been one of the most vocal advocates of shock therapy in Russia, and despite the harrowing human costs there, his attitude was just as

unyielding in Asia. Several governments suggested that since the crisis was caused by the ease with which money could gush in and out of their countries with nothing to slow down the flow, perhaps it made sense to put some barriers back up—the dreaded “capital controls.” China had kept its controls up (ignoring Friedman’s advice in this regard), and it was the only country in the region that was not being ravaged by the crisis. And Malaysia had put controls back up, and they seemed to be working.

Fischer and the rest of the IMF team dismissed the idea out of hand.¹⁹ The IMF displayed no interest in what had actually caused the crisis. Instead, like a prison interrogator looking for a weakness, the fund was exclusively focused on how the crisis could be used as leverage. The meltdown had forced a group of strong-willed countries to beg for mercy; to fail to take advantage of that window of opportunity was, for the Chicago School economists running the IMF, tantamount to professional negligence.

With their treasuries empty, the Tigers were, as far as the IMF was concerned, broken; now they were primed to be remade. The first stage of this process was to strip the countries of all the “trade and investment protectionism and activist state intervention that were the key ingredients of the ‘Asian miracle,’” as the political scientist Walden Bello put it.²⁰ The IMF also demanded that the governments make deep budget cuts, leading to mass layoffs of public sector workers in countries where people were already taking their own lives in record numbers. Fischer admitted after the fact that the IMF had concluded that in Korea and Indonesia, the crisis was unrelated to government overspending. Nonetheless, he used the extraordinary leverage granted by the crisis to extract these painful austerity measures. As one *New York Times* reporter wrote, the IMF’s actions were “like a heart surgeon who, in the middle of an operation, decides to do some work on the lungs and kidneys, too.”²¹

After the IMF had stripped the Tigers of their old habits and ways, they were now ready to be reborn, Chicago-style: privatized basic services, independent central banks, “flexible” workforces, low social spending and, of

* The IMF is often portrayed as a puppet of the U.S. Treasury, but rarely have the strings been as clearly visible as during these negotiations. To make sure the interests of U.S. firms were reflected in the final agreements, David Lipton, U.S. Treasury undersecretary for international affairs (and Sachs’s former partner for Poland’s shock therapy program), flew to South Korea and checked into the Seoul Hilton—the hotel where the negotiations between the IMF and the Korean government were taking place. Lipton’s presence was, according to *The Washington Post*’s Paul Blustein, “a visible manifestation of the influence the United States wields over IMF policy.”

course, total free trade. According to the new agreements, Thailand would allow foreigners to own large stakes in its banks, Indonesia would cut food subsidies, and Korea would lift its law protecting workers against mass layoffs.²² The IMF even set strict layoff targets in Korea: in order to get the loan, the country's banking sector needed to shed 50 percent of its workforce (later lowered to 30 percent).²³ This kind of demand was crucial for many Western multinationals who wanted assurances that they could radically downsize the Asian firms they were about to buy. Piñera's "Berlin Wall" was falling down.

Such measures would have been unthinkable a year before the crisis hit, when South Korea's trade unions had been at their peak of militancy. They had greeted a proposed new labor law that would have reduced job security with the largest and most radical series of strikes in South Korea's history. But, thanks to the crisis, the rules of the game had changed. The economic meltdown was so dire that it gave governments the license (as similar crises had from Bolivia to Russia) to declare temporary authoritarian rule; it didn't last long—just long enough to impose the IMF decrees.

Thailand's shock therapy package, for instance, was pushed through the National Assembly not in a normal process of debate but as a result of four emergency decrees. "We have lost our autonomy, our ability to determine our macroeconomic policy. This is unfortunate," conceded Thailand's deputy premier, Supachai Panitchpakdi (later rewarded for this kind of cooperative attitude by being named head of the WTO).²⁴ In South Korea, the IMF subversion of democracy was even more overt. There, the end of the IMF negotiations coincided with scheduled presidential elections in which two of the candidates were running on anti-IMF platforms. In an extraordinary act of interference with a sovereign nation's political process, the IMF refused to release the money until it had commitments from all four main candidates that they would stick to the new rules if they won. With the country effectively held at ransom, the IMF was triumphant: each candidate pledged his support in writing.²⁵ Never before had the central Chicago School mission to protect economic matters from the reach of democracy been more explicit: you can vote, South Koreans were told, but your vote can have no bearing on the managing and organization of the economy. (The day the deal was signed was instantly dubbed Korea's "National Humiliation Day.")²⁶

In one of the worst-hit countries, such acts of democracy containment were not required. Indonesia, first in the region to fling open its doors to deregulated foreign investment, was still under the control of General Suharto,

after more than thirty years. Suharto, however, had become less compliant with the West in his old age (as dictators often do). After decades of selling off Indonesia's oil and mineral wealth to foreign corporations, he had grown bored with enriching others and had spent the previous decade or so taking care of himself, his children and his golfing buddies. For instance, the general had given heavy subsidies to a car company—owned by his son Tommy—much to the consternation of Ford and Toyota, who saw no reason why they should have to compete with what analysts called "Tommy's toys."²⁷

For a few months, Suharto tried to resist the IMF, issuing a budget that did not contain the massive cuts it was demanding. The fund fought back by increasing the pain levels. Officially, IMF representatives are not allowed to talk to the press during a negotiation since the slightest indication of how talks are going can dramatically influence the market. That didn't stop an unnamed "senior IMF official" from telling *The Washington Post* that "the markets are asking themselves the question of just how much the senior Indonesian leadership is committed to this program, and particularly to the major reform measures." The article went on to predict that the IMF would punish Indonesia by withholding billions in promised loans. As soon as it appeared, Indonesia's currency fell through the floor, losing 25 percent of its value in a single day.²⁸

With that massive blow, Suharto gave in. "Can someone find me an economist who knows what's going on?" Indonesia's foreign minister reportedly pleaded.²⁹ Suharto found such an economist; in fact, he found several. Guaranteeing that the final IMF negotiations would go smoothly, he brought back the Berkeley Mafia who, after playing such a central role in the early days of his regime, had lost their influence with the aging general. After years in the political wilderness, they were once again in charge, with Widjojo Nitisastro, now seventy years old and known in Indonesia as "the dean of the Berkeley Mafia," heading up the negotiations. "When times are good, Widjojo and the economists are put in an obscure corner and President Suharto speaks to the cronies," explained Mohammad Sadli, a former Suharto minister. "The technocrat group is at its best in times of crisis. Suharto listens to them more for the time being and he orders the other ministers to shut up."³⁰ Talks with the IMF now took a distinctly more collegial tone, more "like intellectual discussions. No pressure from one side on the other," explained a member of Widjojo's team. Naturally, the IMF got almost everything it wanted—140 "adjustments" in all.³¹

The Reveal

As far as the IMF was concerned, the crisis was going extremely well. In less than a year, it had negotiated the economic equivalent of extreme makeovers for Thailand, Indonesia, South Korea and the Philippines.³² It was finally ready for the defining moment in every makeover drama: the Reveal, the moment when the nipped-and-tucked, coached-and-buffed subject is unveiled to the awestruck public—in this case, the global stock and currency markets. If all had gone smoothly, when the IMF pulled back the curtain on its newest creations, the hot money that had fled Asia the previous year would have come rushing back in to buy up the Tigers' now irresistible stocks, bonds and currencies. Something else happened; the market panicked. The reasoning went like this: if the fund thought that the Tigers were such hopeless cases that they needed to be remade from scratch, then Asia was obviously in much worse shape than anyone had previously feared.

So rather than rushing back, traders responded to the IMF's big Reveal by promptly yanking out even more money and further attacking Asia's currencies. Korea was losing \$1 billion a day and its debt was downgraded to junk bond status. The IMF's "help" had turned crisis into catastrophe. Or, as Jeffrey Sachs, now in open warfare with the international financial institutions, put it, "Instead of dousing the fire, the IMF in effect screamed fire in the theatre."³³

The human costs of the IMF's opportunism were nearly as devastating in Asia as in Russia. The International Labor Organization estimates that a staggering 24 million people lost their jobs in this period and that Indonesia's unemployment rate increased from 4 to 12 percent. Thailand was losing 2,000 jobs a day at the height of the "reforms"—60,000 a month. In South Korea, 300,000 workers were fired every month—largely the result of the IMF's totally unnecessary demands to slash government budgets and hike interest rates. By 1999, South Korea's and Indonesia's unemployment rates had nearly tripled in only two years. As in Latin America in the seventies, what disappeared in these parts of Asia was what was so remarkable about the region's "miracle" in the first place: its large and growing middle class. In 1996, 63.7 percent of South Koreans identified as middle class; by 1999 that number was down to 38.4 percent. According to the World Bank, 20 million Asians were thrown into poverty in this period of what Rodolfo Walsh would have called "planned misery."³⁴

Behind every statistic was a story of wrenching sacrifice and degraded decisions. As is always the case, women and children suffered the worst of the

crisis. Many rural families in the Philippines and South Korea sold their daughters to human traffickers who took them to work in the sex trade in Australia, Europe and North America. In Thailand, public health officials reported a 20 percent increase in child prostitution in just one year—the year after the IMF reforms. The Philippines tracked the same trend. "It was the rich who benefited from the boom, but we the poor pay the price of the crisis," said Khun Bunjan, a community leader in northeast Thailand who was forced to send her children to work as scavengers after her husband lost his factory job. "Even our limited access to schools and health [care] is now beginning to disappear."³⁵

It was in this context that the U.S. secretary of state, Madeleine Albright, visited Thailand in March 1999 and saw fit to scold the Thai public for turning to prostitution and the "dead end of drugs." It is "essential that girls not be exploited and abused and exposed to AIDS. It's very important to fight back," Albright said, filled with moral resolve. She apparently saw no connection between the fact that so many Thai girls were being forced into the sex trade and the austerity policies for which she expressed her "strong support" on the same trip. It was the Asian financial crisis's equivalent of Milton Friedman expressing his displeasure with Pinochet's or Deng Xiaoping's human rights violations while praising their bold embrace of economic shock therapy.³⁶

Feeding Off the Ruins

The story of Asia's crisis usually ends there—the IMF tried to help; it didn't work. Even the IMF's own internal audit came to that conclusion. The fund's Independent Evaluation Office concluded that the structural adjustment demands were "ill-advised" and "broader than seemed necessary" as well as "not critical to resolving the crisis." It also warned that "crisis should not be used as an opportunity to seek a long agenda of reforms just because leverage is high, irrespective of how justifiable they may be on merits."* A particularly forceful section of the internal report accused the fund of being so blinded by free-market ideology that even considering capital controls was institutionally unimaginable. "If it was heresy to suggest that financial markets were not distributing world capital in a rational and stable way, then it was a mortal sin to contemplate" capital controls.³⁷

* For some reason, that highly critical report did not come out until 2003, five years after the crisis. By then, it was a little late to be issuing warnings against crisis opportunism; the IMF was already structurally adjusting Afghanistan and drawing up plans for Iraq.

What few were willing to admit at the time is that, while the IMF certainly failed the people of Asia, it did not fail Wall Street—~~for~~ from it. The hot money may have been spooked by the IMF's drastic measures, but the large investment houses and multinational firms were emboldened. "Of course these markets are highly volatile," said Jerome Booth, head of research at London's Ashmore Investment Management. "That's what makes them fun."³⁸ These fun-seeking firms understood that as a result of the IMF's "adjustments," pretty much everything in Asia was now up for sale—and the more the market panicked, the more desperate Asian companies would be to sell, pushing their prices through the floor. Morgan Stanley's Jay Pelosky had said that what Asia needed was "more bad news to continue to put pressure on these corporates to sell their companies"—and that's exactly what happened, thanks to the IMF.

Whether the IMF planned the deepening of Asia's crisis or was merely recklessly indifferent remains a subject of debate. Perhaps the most charitable interpretation is that the fund knew it could not lose: if its adjustments inflated another bubble in emerging-market stocks, that would be a boon; if they sparked more capital flight, it would be a bonanza for vulture capitalists. Either way, the IMF was comfortable enough with the possibility of total meltdown to be willing to roll the dice. It's now clear who won the gamble.

Two months after the IMF came to its final agreement with South Korea, *The Wall Street Journal* ran an article headlined "Wall Street Scavenging in Asia-Pacific." It reported that Pelosky's firm, as well as several other prominent houses, had "dispatched armies of bankers to the Asia-Pacific region to scout for brokerage firms, asset management firms and even banks that they can snap up at bargain prices. The hunt for Asian acquisitions is urgent because many U.S. securities firms, led by Merrill Lynch & Co. and Morgan Stanley, have made overseas expansion their priority."³⁹ In short order, several major sales went through: Merrill Lynch bought Japan's Yamaichi Securities as well as Thailand's largest securities firm, while AIG bought Bangkok Investment for a fraction of its worth. JP Morgan bought a stake in Kia Motors, while Travelers Group and Salomon Smith Barney bought one of Korea's largest textile companies as well as several other companies. Interestingly, the chair of Salomon Smith Barney's International Advisory Board, which was providing advice to the company on mergers and acquisitions in this period, was Donald Rumsfeld (appointed in May 1999). Dick Cheney was also on the board. Another winner was the Carlyle Group, the secretive

Washington-based firm known for being the preferred soft landing for ex-presidents and ministers, from former secretary of state James Baker, to former U.K. prime minister John Major, to Bush Sr., who served as a consultant. Carlyle used its top-level connections to snap up Daewoo's telecom division, Ssangyong Information and Communication (one of Korea's largest high-tech firms), and it became a major shareholder in one of Korea's largest banks.⁴⁰

Jeffrey Garten, former U.S. undersecretary of commerce, had predicted that when the IMF was finished, "there is going to be a significantly different Asia, and it will be an Asia in which American firms have achieved much deeper penetration, much greater access."⁴¹ He wasn't kidding. Within two years, the face of much of Asia was utterly transformed, with hundreds of local brands replaced by multinational giants. It was dubbed "the world's biggest going-out-of-business sale," by *The New York Times*, and a "business-buying bazaar" by *BusinessWeek*.⁴² In fact, it was a preview of the kind of disaster capitalism that would become the market norm after September 11: a terrible tragedy was exploited to allow foreign firms to storm Asia. They were there not to build their own businesses and compete but to snap up the entire apparatus, workforce, customer base and brand value built over decades by Korean companies, often to break them apart, downsize them or shut them completely in order to eliminate competition for their imports.

The Korean titan Samsung, for instance, was broken up and sold for parts: Volvo got its heavy industry division, SC Johnson & Son its pharmaceutical arm, General Electric its lighting division. A few years later, Daewoo's once-mighty car division, which the company had valued at \$6 billion, was sold off to GM for just \$400 million—a steal worthy of Russia's shock therapy. But this time, unlike what happened in Russia, local firms were getting wiped out by the multinationals.⁴³

Other big players who got a piece of the Asian distress sale included Seagram's, Hewlett-Packard, Nestlé, Interbrew and Novartis, Carrefour, Tesco and Ericsson. Coca-Cola bought a Korean bottling company for half a billion dollars; Procter and Gamble bought a Korean packaging company; Nissan bought one of Indonesia's largest car companies. General Electric acquired a controlling stake in Korea's refrigerator manufacturer LG; and Britain's Powergen nabbed LG Energy, a large Korean electricity-and-gas company. According to *BusinessWeek*, the Saudi prince Alwaleed bin Talal was "jetting across Asia in his cream-colored Boeing 727, collecting bargains"—including a stake in Daewoo.⁴⁴

Fittingly, Morgan Stanley, which had been the loudest in calling for a deepening of the crisis, inserted itself into many of these deals, collecting huge commissions. It acted as Daewoo's adviser on the sale of its automotive division and on brokering the privatization of several South Korean banks.⁴⁵

It wasn't only private Asian firms that were being sold to foreigners. Like earlier crises in Latin America and Eastern Europe, this one also forced governments to sell public services to raise badly needed capital. The U.S. government eagerly anticipated this effect early on. In arguing why Congress should authorize billions to the IMF for the Asia makeover, the U.S. trade representative Charlene Barshefsky offered assurances that the agreements would "create new business opportunities for US firms": Asia would be forced to "accelerate privatization of certain key sectors—including energy, transportation, utilities and communications."⁴⁶

Sure enough, the crisis set off a wave of privatizations, and foreign multinationals cleaned up. Bechtel got the contract to privatize the water and sewage systems in eastern Manila, as well as one to build an oil refinery in Sulawesi, Indonesia. Motorola got full control over Korea's Appeal Telecom. The New York-based energy giant Sinopec got a large stake in Thailand's public gas company, the Cogeneration. Indonesia's water systems were split between Britain's Thames Water and France's Lyonnaise des Eaux. Canada's Westcoast Energy snapped up a huge Indonesian power plant project. British Telecom purchased a large stake in both Malaysia's and Korea's postal services. Bell Canada got a piece of Korea's telecom Hansol.⁴⁷

All told, there were 186 major mergers and acquisitions of firms in Indonesia, Thailand, South Korea, Malaysia and the Philippines by foreign multinationals in a span of only twenty months. Watching this sale unfold, Robert Wade, an LSE economist, and Frank Veneroso, an economic consultant, predicted that the IMF program "may even precipitate the biggest peacetime transfer of assets from domestic to foreign owners in the past fifty years anywhere in the world."⁴⁸

The IMF, while admitting some errors in its early responses to the crisis, claims that it quickly corrected them and that the "stabilization" programs were successful. It's true that Asia's markets eventually calmed down, but at a tremendous and ongoing cost. Milton Friedman, at the height of the crisis, had cautioned against panic, insisting that "it will be over. . . . As they get this financial mess settled, you can see a return to growth in Asia, but whether it will be one year, two years, three years, nobody can tell you."⁴⁹

The truth is that Asia's crisis is still not over, a decade later. When 24 million people lose their jobs in a span of two years, a new desperation takes root that no culture can easily absorb. It expresses itself in different forms across the region, from a significant rise in religious extremism in Indonesia and Thailand to the explosive growth in the child sex trade.

Employment rates have still not reached pre-1997 levels in Indonesia, Malaysia and South Korea. And it's not just that workers who lost their jobs during the crisis never got them back. The layoffs have continued, with new foreign owners demanding ever-higher profits for their investments. The suicides have also continued: in South Korea, suicide is now the fourth most common cause of death, more than double the pre-crisis rate, with thirty-eight people taking their own lives every day.⁵⁰

That is the untold story of the policies that the IMF calls "stabilization programs," as if countries were ships being tossed around on the market's high seas. They do, eventually, stabilize, but that new equilibrium is achieved by throwing millions of people overboard: public sector workers, small-business owners, subsistence farmers, trade unionists. The ugly secret of "stabilization" is that the vast majority never climb back aboard. They end up in slums, now home to 1 billion people; they end up in brothels or in cargo ship containers. They are the disinherited, those described by the German poet Rainer Maria Rilke as "ones to whom neither the past nor the future belongs."⁵¹

These people weren't the only victims of the IMF's demand for perfect orthodoxy in Asia. In Indonesia, the anti-Chinese sentiment I witnessed in the summer of 1997 continued to build, stoked by a political class happy to deflect attention away from itself. It got much worse after Suharto raised the price of basic survival items. Riots broke out across the country, and many of them targeted the Chinese minority; approximately twelve hundred people were killed, and dozens of Chinese women were gang-raped.⁵² They too should be counted among the victims of Chicago School ideology.

Anger in Indonesia did, finally, direct itself at Suharto and the presidential palace. For three decades, Indonesians had been kept more or less in line by the memory of the bloodbath that brought Suharto to power, a memory that was refreshed by periodic massacres in the provinces and in East Timor. Anti-Suharto rage had burned under the surface all this time, but it took the IMF to pour the gasoline—which it did, ironically, by demanding

that he raise the price of gasoline. After that, Indonesians rose up and pushed Suharto from power.

Like a prison interrogator, the IMF used the extreme pain of the crisis to break the Asian Tigers' will, to reduce the countries to total compliance. But the CIA's interrogation manuals warn that this process can go too far—apply too much direct pain and, instead of regression and compliance, the interrogators face confidence and defiance. In Indonesia that line was crossed, a reminder that it is possible to take shock therapy too far, provoking a kind of blowback that was about to become very familiar, from Bolivia to Iraq.

Free-market crusaders are, however, slow learners when it comes to the unintended consequences of their policies. The only lesson learned from the enormously lucrative Asian sell-off appears to have been yet more confirmation for the shock doctrine, more evidence (as if any more was needed) that there is nothing like a true disaster, a genuine churning of society, to open up a new frontier. A few years after the peak of the crisis, several prominent commentators were even willing to go so far as to say that what happened in Asia, despite all the devastation, was a blessing in disguise. *The Economist* noted that “it took a national crisis for South Korea to turn from an inward-looking nation to one that embraced foreign capital, change and competition.” And Thomas Friedman, in his best-selling book *The Lexus and the Olive Tree*, declared that what happened in Asia wasn't a crisis at all. “I believe globalization did us all a favor by melting down the economies of Thailand, Korea, Malaysia, Indonesia, Mexico, Russia, and Brazil in the 1990s, because it laid bare a lot of rotten practices and institutions,” he wrote, adding that “exposing the crony capitalism in Korea was no crisis in my book.”⁵³ In his *New York Times* columns supporting the invasion of Iraq, a similar logic would be on display, except that the melting down would be done with cruise missiles, not currency trades.

The Asian crisis certainly showed how well disaster exploitation worked. At the same time, the destructiveness of the market crash and the cynicism of the West's response sparked powerful countermovements.

The forces of multinational capital got their way in Asia, but they provoked new levels of public rage, with the rage eventually directed squarely at the institutions advancing the ideology of unfettered capitalism. As an unusually balanced *Financial Times* editorial put it, Asia was a “warning signal that public unease with capitalism and the forces of globalization is reaching a worrying level. The Asian crisis showed the world how even the most successful countries could be brought to their knees by a sudden outflow of

capital. People were outraged at how the whims of secretive hedge funds could apparently cause mass poverty on the other side of the world.”⁵⁴

Unlike in the former Soviet Union, where the planned misery of shock therapy could be passed off as part of the “painful transition” from Communism to market democracy, Asia's crisis was plainly a creation of the global markets. Yet when the high priests of globalization sent missions to the disaster zone, all they wanted to do was deepen the pain.

The result was that these missions lost the comfortable anonymity they had enjoyed previously. The IMF's Stanley Fischer recalled the “circus atmosphere” around the Seoul Hilton when he visited South Korea at the start of the negotiations. “I got imprisoned in my hotel room—couldn't move out because [if] I opened the door, there were 10,000 photographers.” According to another account, in order to reach the banquet room where the negotiations were taking place, IMF representatives were forced “to take a circuitous route to a back entrance that involved going up and down flights of stairs and through the Hilton's vast kitchen.”⁵⁵ At the time, IMF officials were unaccustomed to such attention. The experience of being prisoners in five-star hotels and conference centers would become familiar for emissaries of the Washington Consensus in the years to come, as mass protests started to greet their gatherings around the world.

After 1998, it became increasingly difficult to impose the shock therapy-style makeovers by peaceful means—through the usual IMF bullying or arm-twisting at trade summits. The defiant new mood coming from the South made its global debut when the World Trade Organization talks collapsed in Seattle in 1999. Though the college-age protesters received the bulk of the media coverage, the real rebellion took place inside the conference center, when developing countries formed a voting bloc and rejected demands for deeper trade concessions as long as Europe and the U.S. continued to subsidize and protect their domestic industries.

At the time, it was still possible to dismiss the Seattle breakdown as a minor pause in the steady advance of corporatism. Within a few years, however, the depth of the shift would be undeniable: the U.S. government's ambitious dream of creating a unified free-trade zone encompassing all of Asia-Pacific was abandoned, as were a global investors' treaty and plans for a Free Trade Area of the Americas, stretching from Alaska to Chile.

Perhaps the greatest impact of the so-called antiglobalization movement was that it forced the Chicago School ideology into the dead center of the international debate. For a brief moment at the turn of the millennium, there

was no pressing crisis to deflect attention—the debt shocks had faded, the “transitions” were complete, and a new global war had not yet arrived. What was left was the real world track record of the free-market crusade: the dismal reality of inequality, corruption and environmental degradation left behind when government after government embraced Friedman’s advice, given to Pinochet all those years ago, that it was a mistake to try “to do good with other people’s money.”

In retrospect, it is striking that capitalism’s monopoly period, when it no longer had to deal with competing ideas or counterpowers, was extremely brief—only eight years, from the collapse of the Soviet Union in 1991 to the collapse of the WTO talks in 1999. But rising opposition would not slow the determination to advance this extraordinarily profitable agenda; its advocates would simply ride the waves of fear and disorientation created by bigger shocks than ever before.

PART 5

SHOCKING TIMES

THE RISE OF THE DISASTER CAPITALISM COMPLEX

Creative destruction is our middle name, both within our own society and abroad. We tear down the old order every day, from business to science, literature, art, architecture, and cinema to politics and the law. . . . They must attack us in order to survive, just as we must destroy them to advance our historic mission.

—Michael Ledeen, *The War against the Terror Masters*, 2002

George’s answer to any problem at the ranch is to cut it down with a chain saw—which I think is why he and Cheney and Rumsfeld get along so well.

—Laura Bush, White House Correspondents’ Association Dinner, April 30, 2005