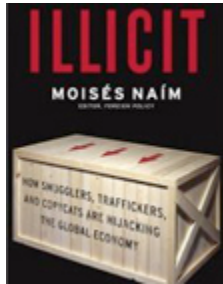




## ILLICIT: How Smugglers, Traffickers, and Copycats Are Hijacking the Global Economy

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### Introduction

**JOANNE MYERS:** Good morning. I'm Joanne Myers. On behalf of the Carnegie Council, I'd like to welcome you and thank you for joining us as we are about to welcome Moisés Naím, who will be discussing his book, [\*Illicit: How Smugglers, Traffickers, and Copycats Are Hijacking the Global Economy\*](#).

It is difficult to imagine any entity that has been as highly profitable or has managed so skillfully to take advantage of globalization in the way that illicit trade has done in recent times. For as a business, global trade in illegal goods and services has not only succeeded in marketing its wares to a variety of individuals, but it has done so without spending any money on conventional advertising. It is a business that has cleverly and rapidly responded to changing markets and transport routes. Shady as this undertaking is, it has even brought rewards to some of the world's poorest countries, while at the same time employing many of the industrialized world's minorities and unskilled laborers.

But our discussion today is not just about the successful business model for illicit trade in arms, drugs, human beings, intellectual property, and money laundering; it is much more. Far more importantly, it is a discussion about a new form of politics emerging in the twenty-first century. It is about the new economic realities that have brought to the fore a whole new set of political actors whose values may not only be at variance with yours and mine, but also are on a direct collision course with ours and, consequently, threaten us all.

In his book *Illicit*, Mr. Naím tells us that this illicit trade has now become so pervasive that it, in turn, has fundamentally changed the character of the world, with profound effects on economics, politics, and international relations. In fact, he says that the economic power that has been created from illicit trade is rapidly being translated into bona fide political power.

As the editor of *Foreign Policy* magazine, Moisés Naím has always brought fresh thinking and passion to a wide range of issues. So when he chose to investigate the effects of globalization on international economics, finance, and governance, in rich and poor countries alike, and then wanted to understand the unanticipated consequences of the new connections between world politics and economics, he realized that he could never understand this unless he paid closer attention to the role of criminal activities in shaping decisions, institutions, and outcomes.

Bringing his past experiences as a minister of trade and industry in Venezuela, and the knowledge he gained while working as executive director at the World Bank, Mr. Naím has been able to provide

penetrating insight on the subject, and now eloquently articulates just how great a threat illicit trade is to our global economy.

Based on the Annual Grotius Lecture he delivered at the American Society of International Law, Mr. Naím brought together a great deal of disparate research on smugglers, traffickers, and copycats, to reach new conclusions about how these underground trades were establishing their own connections in the global marketplace. What resulted is an unparalleled perspective on what he believes are the issues that are now dominating and will continue to dominate the world in the twenty-first century.

To help us gain a better understanding of this phenomenon and what we can do about it, please join me in welcoming our guest today, Moisés Naím.

## Remarks

**MOISÉS NAÍM:** Thank you, Joanne, and thank you all for being here.

I will be brief. I think Joanne, in her wonderful introduction, has highlighted the main points that I make in the book. I would like to just make a few central points that I think are worth highlighting and then take your questions and have a conversation.

The book is about what Joanne said. It is not about crime; it is about geopolitics. It's about how a very old practice—as old as trade itself—which is black markets, smuggling, and trafficking, is changing the world. That is a very bold assertion to make, because, as I said, there's nothing new about smuggling. The first time ever that a government, an authority, attempted to stop humans from moving from one place to another or moving goods from one place to another, smuggling emerged. So smuggling is as old as the Phoenicians, as the Bible, and has been with us forever. Crime has been with us forever.

So how can one argue that now is different? How can one argue that it is changing the world?

I think there has been a change in volume, but even more important, a fundamental mutation in the nature, of smuggling. The same forces that reshaped nongovernmental organizations in the 1990s, that allowed small companies to become multinationals, that allowed nonexistent companies that were just created to be born with a global vocation—companies on the Internet that, from the beginning, did not think of their market as their local, national market, but were born to be global and serve a global market—the same forces that allow terrorists to operate so effectively, are behind the expansion of illegal trade.

You know what they are. With an audience like this, I don't have to talk about the Internet or a very powerfully transforming and underrated technology, which is the prepaid phone card, or the very convenient tool that you all have in your pockets and purses, which is the ATM card, which is wonderful to launder money and move money around.

I don't have to talk about a business that did not exist even ten years ago or more, which is the international trade in human organs, which appeared as a result of the changes in technologies that lowered the risks of transplants and the new medical technology that allowed organs to be kept in inventory, so to speak, for a longer period.

Some of these trades have been with us for a long time, such as the drug trade and the arms trade. As for the counterfeit trade—remember the counterfeits that were first made in Taiwan that were shoddy and clearly recognizable as such. It was important, but, in the late 1980s and early 1990s, it was not a major trade.

Today it is \$630 billion a year. It includes not only the branded fashion items, from Gucci bags to Rolex watches, but includes medicines that, instead of curing, kill. It includes faulty airplane parts, all sorts of industrial machinery—and gas stations. I was surprised, in talking to one of the top executives of British Petroleum, when he told me that they found a fake BP gas station in Bulgaria. You would go in, it had all the signage, it had all the brands, and you could even pump gasoline and think that you were using the services of BP. But it wasn't; it was a fake BP. Then there's Wrigley chewing gum in China—they even

faked the highly recognizable trucks. They produced Wrigley chewing gum, and they had the trucks that looked exactly the same and went around on the routes.

The numbers of all these things are staggering. What is even more interesting and more staggering is that they are growing—for example, the people trade. It took 400 years to bring 12 million African slaves to this continent. In the past ten years alone, 30 million women and children have been trafficked in Southeast Asia. I repeat the numbers: it took 400 years to move 12 million people; it took a decade to move 30 million.

After the drug trade, the people trade is the fastest-growing. It has two branches. One is the coerced trade in people and the other is voluntary, people that essentially pay somebody to be moved to a country where they can earn a higher salary. We can get into the details of that. It is estimated to be at about \$10 billion to \$12 billion per year.

All of these estimates are gross estimates. We can discuss the sources later. As for the drug trade, remember the movie *The French Connection*? That was a two-kilo deal, and it was something like \$100,000. That was the whole thing. Now that is a very minor transaction that doesn't even get registered. In 1991, according to Interpol, the drug trade was about \$61 billion. According to several sources, today it is \$1 trillion.

Arms used to be between \$1 billion to \$2 billion. When I talk about the arms trade, I'm not talking about destroyers and tanks and the big-ticket items; I'm talking about small arms, assault rifles, rocket-propelled grenades, and things like that. Now they are between \$2 billion and \$10 billion, depending on the year and the war. There are about 50 million to 80 million AK-47s, the famous assault weapon, the Kalashnikov, in circulation today. They are now manufactured in 27 different places. Many of them are counterfeits.

Of the 550 million small arms and light weapons in circulation, only 3 percent are used by government and military or law enforcement. The rest are in the hands of individuals. Just to give you a sense of what has happened with this trade, in 1986, in a town in Kenya called Kolowa, you could get an AK-47 for fifteen cows. This year you can get it for four. So the supply of these weapons is immense, and many of them are now counterfeited. I had a conversation with a group of people who were preparing to sue the U.S. government for having purchased counterfeited AK-47s to supply the new Iraqi army.

Counterfeiting is not only in weapons. Forty percent of Procter & Gamble shampoo in China is counterfeit; 60 percent of Honda motorbikes, 80 percent of all DVDs, 94 percent of all brand-name software sold in China is counterfeit. And it's not just China. In France and Japan, 40 percent of the software used is counterfeit. In Germany and Britain, it's 30 percent.

In fact, the counterfeit trade is the first instance that alerted me and sparked my curiosity about this theme. I was walking in the streets of Milan, and I saw a street vendor that was selling Prada bags and Gucci bags and very fancy bags, for 30 euros—or rather the equivalent in lira. In the mid-1990s, euros did not exist. I engaged in a conversation with him, only to discover that he was as illicit as the bags that he was selling. He had been trafficked from West Africa. He was there working, trying to repay the debt which he and his family incurred to get him to work in Milan.

After that trip, I came back to the United States, through New York, and walking a few blocks from here, guess what I found? The same bag, roughly the same price. Engaging again in a conversation with the merchant, I also discovered that he was as illicit as his colleague in Milan. He was also from West Africa, from a different country. They did not know each other. But the process was identical and quite amazing. So that got me thinking. I started looking into that.

Just imagine what it takes. Just think about the logistics of this. First, you have to steal the design from Prada or Gucci or Coach or Rolex. You have to steal it before it's even out, because very often these products are launched in the market before their original owners do it. After you steal the design, you have to take it to China—or other places, but mostly it's a China thing. After that, you have to procure the leather and the buckles and the zippers and everything that goes into that bag, so that it looks

exactly and feels exactly like, or very, very similar to, the original thing. Very often, it is the original thing.

You assemble those bags in the thousands—literally in the thousands. Then you put them in containers and you deploy them in all of the major capitals of the world, more or less at the same time—they're using "just-in-time" inventory here. Then you somehow strike an arrangement with networks that traffic in people from Africa, and use them as your sales force and your merchandising around the world.

Now, think about doing this as a multinational corporation. Just think about the managerial challenges associated with this. You have to manage inventories, accounts payable, accounts receivable. You have to manage information. You have to manage trade, commerce. You have to manage human resources of a very complicated kind. Just doing that as a normal multinational corporation would be a huge challenge. Now add the small detail that all of this is illegal, that all of these acts are criminal acts, and that therefore there is no way you can do this unless you have the active complicity of governments, and more than one.

Start thinking about the business model behind this. How much money do you need, and what are the margins associated with running this kind of operation? It's huge. This is just my personal story. As Joanne said, I don't come to this conversation from a background in law enforcement or policing. This is not an autobiography, nor is it a "how-to" book. This is the way I bumped into this theme.

I started looking into it and discovering several things. First, I discovered how huge it was. Then I discovered how fragmented our attention to it is. Take a newspaper, as Joanne said, any day, anywhere in the world. Take it today. I have not seen the newspapers today, but I bet you that there will be a story about a bust or about illegal immigrants, about something happening in counterfeiting. There's a story like that every day. Except that they will not be linked. The story's emphasis will be on the bust and the specialty—drugs, people, cigarettes, stolen cars, stolen art.

The point of the book is that these are specialists not in the specific items; they are specialists in logistics. One day they can be trading people across the border in Mexico, and the next day they can use the same people to bring some packages full of cocaine. One day they may be trading Guatemalans to work on agriculture in the United States; the next day they will be trading, along the same Mexican border, Chinese cooks for the restaurants in Manhattan.

The point is that this thing is now so global and so pervasive. At the end of the day, these trades are driven by profits. We have all been, rightly, concerned with al Qaeda and Islamic terrorism. The point of the book is that profit can be as strong and powerful a motivator as ideological or religious fanaticism, and that the mechanisms through which the networks of illicit traders operate are very similar to the networks of al Qaeda and others, in which there is not a highly structured, hierarchical organization. This is not the mafia. This is not Don Corleone at the top, with lieutenants and captains. This is nothing like that. These are highly decentralized, agile, stateless networks that can enter into very complex arrangements very quickly in response to market opportunities. They can change as a result of threats and changes in their environment, and then regroup and appear in another trade.

Sometimes they are ethnically based, and sometimes not. We have found evidence of fantastic, mind-blowing arrangements between Ukrainian arms traffickers and Colombian drug traffickers, in cahoots with the Russian money-laundering groups operating out of Brighton Beach here in New York City.

How do you do that without globalization? You don't. Globalization is underpinning all of this. By globalization, I don't mean trade. I mean all of the new opportunities and all of the links that are bringing people together and are facilitating international coordination. As I was saying, at the end of the day, this is about money. The money is huge. The International Monetary Fund estimates that it's about 2 percent to 5 percent of global GDP. A German professor, Friedrich Schneider, who is the president of the German Economic Association and who specializes in measuring these things, reckons that the black economy is about 30 percent of global GDP.

I will conclude with two points: First, what do these trades have in common? Then, what are the consequences? What they have in common, in all cases, are four things.

First, in all cases, they pit governments against markets. In every single one of these instances, you have a government trying to contain a market. This is about arbitrage. This is about buying at a price here and then selling in another place that fetches a far higher price, and a government trying to stop that, in all cases.

The second is that geography no longer matters much. I told you the examples of the Colombians and the Ukrainians and the Russians, but I can tell you about Nigerians operating in Thailand, or I can tell you about Albanians working out of Costa del Sol in Spain, together with Moroccans, and so on. And what does it mean to be a neighboring country? It doesn't mean much of anything anymore. Spain has become a very close neighbor of Colombia in this business. China is a very close neighbor of Italy, and so on.

Third, and connected to this, what do they all have in common? Borders that create a very asymmetrical relationship and a very different reality for governments and for the traffickers. The natural habitat of a government is inside its borders. For a government or a government agency or a government official to work as such in another jurisdiction is as artificial as it would be for any of us to walk on water. If you are a national of one country operating and representing your country abroad, you need as many artificial constructs as a scuba diver. You need treaties, you need permits, you need a whole apparatus, which is slow, cumbersome, difficult, and sometimes it doesn't exist, and therefore you cannot do it.

So while government works inside a nationally border-bounded habitat, the habitat of traffickers is trans-border. They thrive in moving across borders. They thrive in their statelessness. Borders are a wonderful thing for traffickers and a huge, horrible nightmare for government agencies. First, borders create price differentials, of course. Without borders and governments in the borders, it would be impossible for different prices to be obtained. The second is that borders are great shelters. You commit a crime here and you just move over there. Yes, there will be extradition procedures and there will be lawyers, but it's going to take a while, and by then you have probably moved to another jurisdiction.

So first is governments against markets; second is not being bound by geography; third is the differential effects of borders. And fourth is that in every single one of the markets that I studied, governments are failing. Regardless of the resources, political will, commitment, technology, military deployments that governments were using to contain this trade, I did not find one single success story.

I invite you think about it. When was the last time you heard that an insurgent armed group, a guerilla group or an insurgency, a militia, went out of business because it couldn't procure weapons or ammunition? When you did hear that such-and-such group could not operate any longer because they had great difficulty finding weapons? There is none.

Forty billion dollars a year are spent in interdicting drugs in this country, in a war started by Richard Nixon, the war on drugs. Statistics show that marijuana users have multiplied three times and surveys in high schools indicate that very often high-schoolers have a harder time procuring a pack of cigarettes than a joint of marijuana. The purity and availability of cocaine is high and up. There is absolutely no evidence that the war on drugs and the \$40 billion deployed to stop it have had any effect in decades.

People trafficking: The average number of illegal aliens entering the United States during the open, booming, porous borders of the 1990s was half a million. After 9/11, the nation and others reacted, fortified the borders, introduced the Patriot Act, and made it hard to get visas. Scientists trying to enter here had a hard time getting the opportunity to come and work here. Two weeks ago, a study was released about how many illegal aliens were entering this country since 9/11. The number? Half a million.

When was the last time you couldn't find the Gucci bag or the Rolex watch just down the street?

I interviewed a banker in Zurich, and I asked him, "How much more difficult is it for you today, if a client comes and asks you to manage, quote/unquote, \$50 million? By "manage," I mean, hide it from

governments and move it around. How much more difficult would it be now?" He smiled and said, "The only difference is that now I charge more."

This is confirmed by a study of the International Institute of Economics in Washington that Peter Reuter and Ted Truman did, a massive four-year study of the anti-money-laundering system. Their conclusion was that it was very expensive and it was not working. The probability that you would be caught laundering money is 5 percent.

The tragedy of the World Trade Center is estimated to have cost the terrorists between \$350,000 and \$400,000. So it's not very expensive. As for blowing up the Atocha train station in Madrid, that was a very small cell of Moroccans operating in Spain that were funding themselves with an operation of counterfeited DVDs and CDs. It is estimated that the Atocha blowup cost something like 30,000 euros. So it is not like you need massive amounts of money. You don't need the multibillion dollars that a destroyer or an aircraft carrier costs to do these things.

Let me conclude by talking a little bit about the consequences of this. The consequences are closely associated with the notion that, as I said, these are businesses. As all businesses do, traffickers have discovered the three inevitable strategies that businesses undertake. The first is to diversify; second is to politicize; and third is to legitimize.

I will explain. "Diversify" is obvious to you all. As soon as you have some assets, you don't want to put all your eggs in the same basket. If you are a company, you would prefer to not have all of your revenue streams coming from the same source, especially if that source is criminal and illegal. So you have very strong incentives to take some of your profits and invest in legal companies, for a variety of reasons.

First, it facilitates your illegal activities, but also it protects and diversifies your portfolios and your revenues. That confounds our traditional definitions of what is legal and what is an illegal business enterprise.

The second is, if you work in a regulated industry—if you work in the banking sector, if you work in pharmaceuticals, if you work almost in any business in which government plays some regulatory role—you do spend money on what is elegantly called governmental relations—or, more precisely, lobbying. If you want to be crass, you spend money trying to influence government decisions to your advantage. That is true. It has always been true. All regulated businesses do that.

If that's true, why would the most regulated entrepreneurs of all time not do the same thing? If you are accumulating billions of dollars in profits and those depend on governments looking the other way or governments not interfering, why wouldn't you spend huge amounts of money trying to own government officials, government agencies, or governments outright? That is happening, and there are many, many examples that I invite you to look into in the book.

Third, what successful businesses do is, they seek social legitimacy. If you have a lot of money and you are in this kind of business, you fund churches and orchestras, sports clubs and art galleries, and all kinds of social works. In many of these countries, the main social safety net, the main sources of social activities or sports are funded by illicit traders.

These are some of the elements that one needs to take into account when thinking about why this is a different ballgame, why illicit trades have mutated to become a major geopolitical force, and why dismissing this as just a perennial law-enforcement/ crime type of irritant may be one of the most dangerous complacencies that we may have in our current thinking. Thank you very much.

**JOANNE MYERS:** I guess the theme is, "Crime pays." I would like to open the floor to questions.

### Questions and Answers

**QUESTION:** Thank you very much for a thrilling breakfast talk. I think that the case you make for a changed world is very powerful. Clearly, the dimensions of all of this are enormous. I wonder, though,

whether there isn't a certain amount of tolerance—complacency, if you like—on the part of people around the world for this much larger margin of illegal activity than they imagine.

But I wonder, equally, whether that tolerance, that complacency, collapses or is overtaken when it comes to trafficking in people, which you quite rightly focus on. In that respect, it seems to me that, in the last few years, the international community has focused on the problem of illegal people trafficking and has a sense, I think—speaking as a government official—that we might be able to do something to regulate migration a bit better than we've done in the past. Are we wasting our time? Is this a waste of time—30 million people in a decade? If so, what are the consequences of that?

**MOISÉS NAÍM:** When I have to give the thirty-second pitch about what my book is about, I say that it is about arbitrage and hypocrisy. Arbitrage is, as I said, playing with price differential, and its huge, huge hypocrisy. There are minutemen on the borders of this country, in Arizona, trying to stop the illegal immigrants. There is an immigrant anxiety—rightly so—here and in Europe. The small detail, of course, is that the number of fines imposed on American employers that employ illegal aliens has dropped 82 percent since 1991. The last year for which we have numbers is 2003; do you know how many American companies were fined in 2003 for having employed illegal aliens? One hundred and twenty-four. The same is true in Europe.

The book has a section called "Addicted to Source Control." The governments trying to control this are addicted to controlling the sources, which is a necessary, indispensable part of it. But they only do that. I am testifying in Congress, because there is anti-counterfeit legislation being discussed there. It's all about the Chinese. It's all about these counterfeiters, foreigners, from overseas, abroad. There is nothing about people strolling the streets and buying these stolen goods that, in fact, have become part of our lifestyle. Drugs, illegal aliens, counterfeits, even weapons are an inherent part of this society's lifestyle. But it is far easier to bash foreigners. Fighting the sources is far more telegenic. You have helicopters and generals and chases on the high seas, and the poor people moved in containers. Filming people in the streets of Manhattan buying fake watches is not that sexy.

This is my point about hypocrisy and arbitrage. There is a whole chapter in my book called "What To Do?" It starts, "Listen, before even talking about what to do, let's first realize and recognize the nature of the hypocrisy in the national conversation and in the global conversation."

**QUESTIONER:** Your presentation only described all of the problems here. Also, in your mind, are some of these problems more serious than others?

There is also something called the [Financial Action Task Force](#), which is trying, at least, to get the banking system to control the illegal transfer of funds, particularly for terrorists or organized crime purposes. I wonder if you could comment a little bit on some of your suggestions about what to do.

**MOISÉS NAÍM:** Sure. Those are fair questions and very good points.

Let me mention what to do, but first let me recognize the fact that, yes, the Financial Action Task Force is one of the models of success—but limited. It is essentially peer pressure and a group of countries getting together and developing standards. They have had some impact, and it has been important. However, what the Swiss banker told me still stands. He just charges more.

In fact—talk about hypocrisy—I can show you a *Financial Times* editorial arguing that one of the safest places to launder money is the city of London. London, and the U.K., is part of the Financial Action Task Force. So it's not just the island of Curacao or Tortola where it is being laundered. On the island of Manhattan, there is a lot of money being laundered as well.

That's one point. The other very, very good point you make is that, of course, these things do not pose the same threats. I would rather have scarce government resources deployed in trying to contain the international trade in children than in containing the international trade in marijuana; and deployed in containing the international trade in "loose nukes," or nuclear materials that are not under perfect control and that are being smuggled, rather than controlling the DVDs or the software. I would rather have

Microsoft be in charge of controlling their intellectual property, with the help of the government, but not using, completely, the government to stop this, and have governments worry about the threats that I mentioned that really can undermine society and are a major source of instability.

That brings me to a little bit about what to do. What to do is to start being selective

Second, government is highly fragmented on this. The agency that is in charge of controlling counterfeits centers in the U.S. Trade Representative Office and the Department of Commerce. But the agency that is in charge of people trafficking—there are 18 of those around the government. There is a very important element of that at the State Department, but there is another one at the health ministry. You see that there is a connection between counterfeit trafficking and human trafficking, but they are two different agencies.

The drugs are controlled by the Drug Enforcement Agency, but the money laundering is handled at Treasury.

I interviewed all of them for this book. They know each other. They work together. They are aware. But you know that the government works in a very structured way and that intragovernmental coordination is very often a desire more than a reality. If you read the 9/11 Commission report, you will see that it's full of examples where things failed essentially because people reporting to different agencies didn't talk enough to each other, were not even able to share databases.

If you think that that is true inside the government, imagine how much more difficult it is to work across governments. Imagine the difficulty of coordinating international action. You are battling what is essentially a global trade, a multinational trade, with local initiatives that, moreover, are within governments that are fragmented.

So you need to start aggregating and thinking about all of this together. But then, if you do that, you end up with the Department of Homeland Security, which is a disaster. What you need to do is not only to defragment government, but to unburden government. What we're telling governments these days is, "Listen, there are millions of desperate consumers out there willing to pay, and there are hundreds of thousands of very creative entrepreneurs willing to sell. Please get in the middle and stop this." That is essentially what we are saying. In some instances, we should say that and should expect and demand that from our government. But we should also be realistic enough to know that if we ask them to do this across the board, for all trades, for everything that is banned, we are essentially diluting their efforts.

**QUESTION:** The talk may have been thrilling, but it's also rather grim, I think. Your dimensions are so great, either 2 percent or 30 percent of gross national product. What is its distortional effect on the American economy? That is, is the real estate boom in New York a product of drug trade out of Colombia?

**MOISÉS NAÍM:** It's not New York; it's Miami.

**QUESTIONER:** Is Costa del Sol increasing the source of where this wealth goes? Or the flow of wealth, where does that appear? How does it distort economies?

**MOISÉS NAÍM:** That's a wonderful question. There is no doubt that the volumes of money we are talking about are having effects. The first noticeable effect is in real estate prices. Yes, New York may have a little bit of that, but think about London and the Russians, London real estate under Russians. Think of Australia and the Chinese. Think of Miami and many Latin American tycoons—we don't know exactly how they became so wealthy so quickly.

Exact measures of how that happens are not easy. In some of the exporting countries, we have evidence that it is affecting the exchange rate. It is massive enough to have microeconomic consequences. In the Andean countries, the exchange rate is different than what it would be without the export of drugs. Bolivia, without the revenues of the cocoa leaves, would have to devalue, and inflation would ensue.

So we have evidence—scant, fragmented evidence—that these trades are enough to have microeconomic consequences.



But the central point of my book is that you don't need to believe that these numbers are huge in order to respect their political impact. As I said, you don't need a lot of money to pull off a terrorist attack. You don't need a lot of money to buy a bunch of judges in Peru or in Thailand. You don't need a lot of money to buy the federales in Mexico. You purchase a radio station or a newspaper in one of these countries, and gain, therefore, a lot of influence. You don't need a lot of money. There is a lack of proportion between how little money you need and how huge the consequences are in terms of their impact on your bottom line.

**QUESTION:** I'm a producer with an international current-affairs show on PBS. I'm wondering if you could talk about how you went about doing your research. This would be a potentially very interesting investigative film, but, obviously, sensitive, risky. Access would be quite difficult. I'm wondering if learning about how you went about doing your investigation might offer some insights. Thank you.

**MOISÉS NAÍM:** The Milan story is true, and it started there. Because of my job as editor of *Foreign Policy*, a very important part of my work is to travel around the world. I made a determination that, each time I would go to a country, I would talk to police, magistrates, politicians, journalists, victims, and, if I could, I would procure and try to find ways of talking to the actual traffickers. In many instances, I was successful. There is a story in the book about the person I call Don Alfonso, who is a very interesting character in Mexico, a very wealthy businessman who works in a very wealthy, very successful legitimate operation. But on the side, he is also a transporter.

But you know what is amazing about this whole story? I am not a journalist. I'm not an investigative reporter. That is not what I do. What is amazing is how much you can find if you look. If you think about a documentary, you will find existing footage about each one of these trades. What you will not find is footage that puts them all together.

You are not allowed to use that line. There are other people in the room who are also thinking about documentaries. We need to talk.

**QUESTION:** First of all, there's another thing that all these businesses have in common, and that's markup. They are all markup businesses. They are all based on a brand-name identification that can be leveraged. The shocking thing is, they're probably positive on the international scene, all around, if you take a look at income.

The one area where it's not positive—and I just want to invite your comment on it—is the digital area. Far from not monitoring and paying attention to it, as [Paul Romer](#) at Stanford says, digital technology is the greatest lever of capital in the world. If we think of the cost of those DVDs and the software out there, we are estimating, just for your information, that there is \$1 trillion additional in U.S. GDP once we can trade online, because we don't have transportation problems. That is the one thing in this area of profit it doesn't have. Think about the lost opportunity. Whereas it may be positive on the others you mentioned there's an area where we think it's highly negative economically.

**MOISÉS NAÍM:** Absolutely. The only footnote that I would add is that things are changing—and you probably know more than I about this—and they are changing very quickly. Ten years from now, these companies are not going to rely on patents and governments to protect their intellectual property. These digital transactions will take place, because we will have technologies that will be far more protective. Burdening the World Trade Organization and the governments to try to stop this, just on the basis of law enforcement, is an illusion.

The digital industry, as we speak, is developing new products that are far more immune to copying. If you are in the movie business, if you just assume that you are going to continue to make movies and put them on the CDs or DVDs and ship them around, you're dead. There is no way that they are not going to be copied and sold at a fraction. You cannot compete with thieves.

What the industry is doing is transforming the delivery systems. They are coming up with new ways of experiencing the movie or the music that are far more difficult to copy, and they are creating all sorts of

new technological-based protections. That's smart.

Of course, at the same time that they are spending money on this, they are also spending huge money on lobbyists and others that are pressuring governments to continue to try to afford them intellectual protection, based on laws that the governments cannot enforce. Any government in China that really tries to stamp out the counterfeiting industry is likely to generate huge political instability, and I don't know that they can survive.

**QUESTION:** In talking about the different illegal activities, specifically the drug trade, obviously the millions or more that we have spent trying to interdict have not worked. But twenty or thirty years ago, we started a campaign in this country to stop smoking, by television and education and so forth. Has it been given any thought that we could do the same thing with cocaine and marijuana and so on, by just simply having a campaign in this country about the damage they do to people?

**MOISÉS NAÍM:** "Just Say No." [Nancy Reagan](#) started that, and it was dropped. But yours is a wonderful example. In fact, there may be some evidence that cigarette smoking is more addictive than marijuana smoking. Yet the campaign has been very successful in containing the growth. In fact, cigarette smokers in this country are declining. Marijuana smokers are increasing. The bulk of the money is being spent in chasing go-fast boats, as they call them in the high seas, in the Caribbean.

The answer is, there is a place for that. We have evidence that it may work. But I quote in the book a senator I interviewed. (He would not allow me to use his name.) He said, "I am absolutely convinced that what we are doing in terms of drugs, and marijuana especially, is not working, and that we need to legalize it, decriminalize it. But if I say it, I lose my next election."

That is not their fault. They are just politicians that have to respond to the will and instincts and desires of their constituencies. So it's not their fault; it's our fault. Every time somebody suggests, "Let's legalize marijuana," just imagine Pat Robertson or others commenting on this. Just imagine what would be the reaction when somebody proposes this. But when you present the facts and you show the hypocrisy and you present the reality, people listen. But I don't think that we are ready yet.

So the campaign has to be predicated, first, on the decision that we need to have a more sincere national conversation, not in Congress, at our dinner tables, in our homes.

**QUESTION:** A wonderful presentation. I'm looking forward to reading your book. We had a research program at the [International Peace Academy](#) on economic agendas in civil wars, where we explored the linkages between political violence and criminal violence, and how these two have increasingly interfaced to create the types of problems we have now, of course, with terrorism. You alluded to it in your presentation. Could you elaborate on that?

Related to that, I think you are absolutely right that globalization is the context in which all of this is happening. What should be the role of the international organizations, like WTO, the IFIs, the World Bank, IMF, et cetera in this field? They are investing a lot of energy in fighting corruption within countries and putting pressure on governments to deal with a totally different type of corruption, while not going to the roots of the problems that you have highlighted.

**MOISÉS NAÍM:** You've said it all. I completely agree. In the book I talk about a new kind of confrontation in the world that is not between ideologies of Left and Right. It's not between religious, civilizational factions. It is between what I call geopolitical black holes and bright spots. In astrophysics, a black hole is a place in the universe where the traditional laws of physics do not apply. In geopolitics, in the kind of world that I describe in the book, a geopolitical black hole is a space of the earth where our traditional assumptions about politics and law and government and governance and sovereignty and international law no longer apply. That's the first thing.

The second is that you can have a highly failed, violent, isolated geopolitical black hole that does not irradiate instability. In order for a space of the earth to qualify as a geopolitical black hole, it has to have the capacity to irradiate instability across the globe. If you have a terrible thing going on, tragically, in the

middle of Africa and that doesn't spread, that's not a geopolitical black hole. But a geopolitical black hole can be found in the borders between Mexico and the United States, where, as you know, a war has just flared in the last year or so between rival traffickers trying to control the border. The government is involved, and one never knows which part of the government is on which side, and if there is even a government.

What happens in a geopolitical black hole is that you have multiple sovereigns. The idea of sovereignty is that you have a territory, and that territory has a unique source of authority that monopolizes the use of force, that is the wealthiest, and that has the most effective international connections. In geopolitical black holes, you have multiple centers that have all of these things.

President [Karzai](#) laments and complains, rightly, that the international community has not delivered on all of its promises to the reconstruction of Afghanistan, and Afghanistan is becoming increasingly isolated. Yet, as you know, poppy production in Afghanistan has increased 2000 percent since the Taliban was ousted. That country, where the president complains of not having enough political attention or integration, has networks that are capable of delivering pouches and containers of poppies from the rugged mountains of Afghanistan to the streets of Paris in forty-eight hours.

In the middle of the jungles of Colombia, in the middle of the mountains of the Andes in Peru, you have very isolated communities that are medieval. Yet they are able to transfer cocoa leaves to the streets of Miami in twenty-four hours.

These are geopolitical black holes. There is a country that is not really a country, [Transnistria](#), that specializes in illicit trade of women and weapons. That is a geopolitical black hole.

The other thing is that it is very easy to assume that a geopolitical black hole is a failed state, that it is a godforsaken Hobbesian hole in the world, like Somalia for example. Well, yes, sometimes it's that.

But Costa del Sol is commonly called "Costa del Crime." I spoke with the interior minister of Spain, who had just released a report saying that there are 1,500 transnational illegal networks working in Spain, many of them housed in Costa del Sol. (As you said, real estate prices in Malaga have exploded.) He told me that he and his colleagues are convinced that international illicit traders are more of a threat to Spain than Islamic terrorism. This is a country that has a huge Islamic community and that was hit by a terrorist attack.

So that gives you a sense of the connections. My only complement to what you said is, never think of these geopolitical black holes as places in the mountains or the jungles of a failed state. They can be a few blocks from here.

**JOANNE MYERS:** I think you have left us speechless. I thank you very much for an excellent presentation.

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