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## Event Report

# Globalization's Illicit Frontier

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*As far back as Adam Smith, economists have focused on global trade's potential to deliver peace and prosperity. But with globalization comes new challenges for leaders — thorny ethical dilemmas with roots in the interactions between markets and cultures. Dr. Moisés Naím was invited to speak at the annual KPMG Peat Marwick/Stanley R. Klion Forum organized by the Sanford C. Bernstein & Co. Center for Leadership and Ethics at Columbia Business School; his talk was entitled "Ethics at the Frontier of Globalization: A Conversation with Moisés Naím." Dr. Naím, until recently the editor of Foreign Policy magazine, spoke to students and guests about the unintended consequences of global trade — namely, the pervasive rise of illicit networks.*

Dr. Naím, who holds a PhD from MIT, has variously been a business school professor, Venezuela's minister of trade, and executive director at the World Bank. His most recent focus has been the underbelly of global trade. In a provocative talk, Dr. Naím outlined his thesis: Illicit networks — which trade everything from drugs to weapons to people — define the frontiers of globalization. As world markets grow ever intertwined, criminals have exploited the rapid changes in economics, technology and geopolitics to deal in illegal goods.

Dr. Naím made three "bold assertions," as he described them, about this phenomenon. First, these illicit networks are actually the vanguard of global trade. Underground operators, he said, are "faster than anyone else in detecting opportunities" to make money on emerging links between geographies or economies. Second, these illicit activities are not actually "underground" in the sense of being hidden from view. Indeed, Dr. Naím argued, they play an integral role in our daily life and politics more than we'd like to admit. Finally, Dr. Naím claimed that the rise of illicit networks is the "defining trend of our time — more important even than terrorism."

"International criminals have unprecedented power and influence" over the world today, Dr. Naím said. Moreover, the problem has shown no signs of abating and offers no easy solutions, he

argued. Governments haven’t been able to contain the growth of such illegal activity. Perhaps one of the reasons, Dr. Naím implied, is the way nations have approached the problem. In his view, illicit networks can’t be broken down with traditional crime prevention techniques — say, the police force. After all, he said, the issue goes beyond simple corruption or legal infractions: “We are witnessing a global trend characterized by the politicization of criminals and the criminalization of politics.” For example, some 60 percent of Afghanistan’s GDP comes from the opium trade.

Another reason for these networks’ persistence is the tendency to think of illicit trade as something that happens outside the confines of “normal life.” But as Dr. Naím pointed out, the sale of counterfeit goods represents about 8 percent of China’s GDP. And of course, many of those goods are bought in Western markets. The sheer volume of trade suggests that “millions of families depend on it.”

In order to arrive at a more successful approach to curb illegal trade networks, Dr. Naím argued that policymakers and citizens alike would have to come to grips with some hard truths. First, “the world is not divided into clean companies and criminal companies,” Dr. Naím said. As evidence, he pointed out that illegal goods are smuggled through the world’s busiest ports, and the global banking system is used to launder money. Second, the relationship between organizations that profit from illegal trading and world governments is more complicated than it may appear. “If you are an illicit trader,” Dr. Naím said, “you cannot survive if you are not in cahoots with the government.”

Finally, many of the worst offenders cloak their intentions through generous philanthropy programs as a way to legitimize their enterprises in the eyes of the local community. Dr. Naím cited the example of Colombian drug kingpin Pablo Escobar, who lavished his home base of Medellín with everything from schools to soccer club sponsorships. As well, criminal networks in Brazil’s *favelas* provide social services where the government falls short.

Most of the approaches to combating illegal trade have focused on the supply side. Dr. Naím argued that more attention should be paid to the demand side. Much of the work being done to halt counterfeit luxury goods, for instance, has tried to disrupt the makers and purveyors of the ersatz merchandise. Yet little has been done about the willing buyers of these goods, who flock to places such as Manhattan’s Canal Street and buy fakes without a thought about their provenance.

Dr. Naím acknowledges that there is no silver bullet. What may work to fight one illegal trading network may not be applicable to another. For example, Dr. Naím argued that there’s a persuasive case to legalize marijuana in the United States. He suggested that, once decriminalized, marijuana use could be combated in a way similar to tobacco use, which has steadily declined over time through a combination of public policy, education and taxation. Of course, Dr. Naím was quick to mention that the argument for decriminalization gets a lot tougher to make when it comes to, say, the trade in organs. And it breaks down completely with the problem of human trafficking.

While solutions have proved elusive, Dr. Naím said he hopes that more honest conversations about the role that illegal trade networks play in our economies and our lives will help start to assuage the problem. Continued economic growth in emerging markets could help, Dr. Naím said, but that too, is no panacea — illegal networks are not, at root, driven simply by poverty and thus won’t disappear with higher standards of living. “There are no costless solutions,” Dr. Naím said. “Illicit trades are at the center of some of the thorniest problems facing humanity.”

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