

BRIBE, SWINDLE OR STEAL



"Illicit" and the Underside of Globalization – Moises Naim

[00:00:06] Welcome back to the podcast. I'm Alexandra Wrage, and today, we're talking about what my guest describes as "the underside of globalization." He's a distinguished fellow at the Carnegie Endowment for International Peace, contributing Editor to The Atlantic, the chief international columnist for the largest dailies in Spain and in Italy and he was editor-in-chief of Foreign Policy for 14 years, during which he completely revitalized that publication. He was also Venezuela's Minister of Trade and Industry in the early '90s, director of Venezuela's Central Bank and executive director of the World Bank. His most recent book was a New York Times best seller, "The End of Power," but it's his 2006 book, "Illicit: How Smugglers, Traffickers and Copycats are Hijacking the Global Economy," that's required reading for anyone interested in international financial crime. Moises Naim, thank you for joining me today.

[00:00:59] Thanks for inviting me. Delighted to be chatting with you.

[00:01:03] You describe the five wars of globalization in a Foreign Policy article: drugs, arms trafficking, human smuggling, money laundering and theft of intellectual property. Is there a hierarchy of bad amongst these? The fifth is a crime, and it's wrong, but is it really the same category as trafficking, drugs and arms?

[00:01:23] I'm not that worried about high-end fashion things that are being copied and traded. I am worried about the trafficking of children, for example, or nuclear technology. There is a hierarchy concerning how - either morally or in terms of the world's security - is associated with these criminal enterprises.

[00:01:45] You talk about these five categories as fueling instability more generally. Can you describe a little bit, for people who haven't read your fantastic book, the premise behind that?

[00:01:57] When I describe these five trades, I then ask, "Do you know of any government that has been successful in stamping them out?" And the answer is no. They are growing. They are important. Of course, governments here and there have a victory. We see them dismantling a drug cartel or apprehending one of their top leaders, but in general, these five wars and more of products that are illegal to trade is there. In some instances, it's even booming. It's changing its pattern, its nature. It may be now, for example, that the war on drugs is less about things that you cultivate and grow, and more about things that you cook in a lab. I'm talking that, perhaps, the trade in marijuana is not as significant in terms of money as a trade - you know, amphetamines or opioids. The nature, the specifics of the products might have changed a little bit, but the essence is there, and it's very worrisome.

[00:03:01] Your opening chapter in "Illicit" it is called "The Wars We Are Losing," which is a pessimistic start to a book. Apart from these occasional victories that you describe - the book is now 11 years old, really a classic - but do you share the pessimism of that opening chapter?

[00:03:20] Again, it has changed. The reasons to be worried are a little bit different now, perhaps. Now I am more worried. Something that was not in the book as it should have been is governments that

become criminalized. That is, why we have this image that they are the bad guys that occasionally are successful in turning public servants - either the customs guy or some general or some police officer. What we're seeing now is governments that are taking over these criminal enterprises, not to stamp them out but actually run them. These are more like business takeovers rather than law enforcement efforts to eradicate what is a nefarious organization. We are seeing governments that are very closely aligned in many senses, or some instances are actually run by people that are known to be the kingpins of important trafficking networks. That's quite worrisome.

[00:04:25] Can you give us some examples of a state capture by organized crime?

[00:04:28] My own country, Venezuela. The vice president of the country, Tareck El Aissami, was singled out by the U.S. Department of Treasury as being a kingpin of a large drug trafficking cartel. Many others - again, high-ranking military officers, important politicians, important government officials - we also will see some of that which I call mafia states. I see some of those elements elsewhere in the world. We see them in the Balkans. I think Russia and some of the ways in which Russia behaves internationally are better understood if one takes this prism of thinking about the private interests of the people that run the country that are top-of-mind and guide a lot of their actions.

[00:05:25] Absolutely. When I talk to companies that are thinking about going into Russia, the stakes are so much higher because if they declined to pay a bribe, for example, they're not just going to lose the business. They run the risk of running afoul with criminal elements and having their facilities burned or confiscated. We've had Bill Browder on the podcast talking about what happened to Hermitage, his company there. Your book talks about the relative motivation and creativity of the people profiting from these crimes as opposed to the government agencies that are designed to stop them. Is that a core part of this problem - just that they wanted more than we do?

[00:06:03] Not only they wanted more than we do, they are also materially rewarded far more than government officials that chase them. Then there's the issue of sovereignty and borders. For them - for the criminals - borders are everything. Borders are the reason why they can't charge different prices, depending on which side of the border you are. Borders also offer a very powerful shield against persecution. Governments have a hard time working together that we know. It happens, and there is a lot of collaboration at the international level and multilateral organizations - all their efforts and initiatives to get governments to work together in what essentially is a global problem, but the local pool is also very hard. Traffickers are very good at arbitrating between governments, between borders, moving things from one border to another and using the sovereign protection that is accorded to citizens by their country as a shield that protects them from getting captured by an international organization or other countries where they have been accused and found guilty of crimes.

[00:07:20] Always interesting. When I was in Iran, a lot of people believed that the Revolutionary Guard would be more or less destitute if they didn't have the borders to generate business for them. They're in the business of smuggling as a real sideline, so I see the dilemma. Your book talks about the dark side of globalization, but also part of your prescription for progress is more multilateral cooperation. How does that play out?

[00:07:51] My first prescription is selectivity, is understand that we cannot and will not succeed if we criminalize all of these things. Therefore, we need to face the reality that there are certain of these illicit trades that threaten us, either physically or geopolitically or morally, that require more attention than others. We're now chasing governments and chasing all kinds of illicit traffic, and that distracts resources, attention, priorities from others that are more ominous and more of a threat. I already gave

you an example. If I ask you where you would want your police force to be deployed - in dorms of college campuses around the United States chasing who is selling marijuana or would you rather have them chasing the people that are trading women or children? That's an easy one, right? Who will not be clear that going after the people trafficker is more of a priority than going after other criminalize trades? The answer that we typically get is that we cannot afford to do one, the governments have to do everything, and that sounds great until you check the reality and see what is happening. That's as I said: What is happening is that you cannot find a government in the world today that can claim that it has eradicated or made substantial gains in curbing the activities of illicit criminal networks.

[00:09:29] Setting those priorities and then enforcing those priorities, but also selling those to democratic constituents, I think, is probably challenging. Saying that you're going to turn your back on one problem in order to focus on another, I see the political challenge in that.

[00:09:44] Yeah, and there is one of that, which is huge, and then there is the other one that is also quite significant, which is the one you mentioned, the one you asked about, which is the multilateral nature of the problem. These are criminals that operate on a global scale, and our efforts by and large are either national or local or loosely, unwittingly coordinated with other countries.

[00:10:10] What's the solution for that? I'm asking you what's probably an unanswerable question, but how do we tackle these in a more coordinated fashion when the interests of each country are rarely aligned?

[00:10:24] That is what I argued for there. It's what I call mini-lateralism, meaning that instead of trying to get a big summit of all the countries in the world or an entire region to agree to work together - and, inevitably, that ends up with a minimum common denominator we approve because it's the only acceptable kind of agreement - so instead of doing multilateralism, perhaps we should give it a try more systematically and with more enthusiasm to mini-lateralism. That is, identifying a specific trade in a specific area where there are three or four or five governments of the countries that are involved, and then concentrate on that and concentrate on boosting their ability to work together. The smallest number of countries possible that this involves has either good solutions or is part of a problem. That is already happening. The collaboration between the United States and Mexico on drugs is quite significant and long-standing, has been there for a long while. But again, we also see a lot of difficulties on both sides. It may be one of the consequences of President Trump's attacks on NAFTA and building the wall will resolve all the blessings for traffickers, of products and people between the United States and Mexico and vice-versa.

[00:11:58] We've talked about the role of government. Let's talk for a minute about the role of consumers. This brings us back to the intellectual property. You write that a clean line between good guys and bad guys fails to capture the reality of trafficking today. You say, "The fact is that illicit trade permeates our daily lives in subtle ways." So ordinary consumers may read about illicit financial flows and think, "Well, that doesn't have anything to do with me." How are regular people inadvertently fueling these illegal industries? The drug trade is clearer, but when you think about some of these other things - the intellectual property, of course - but also human trafficking. What is the role of ordinary consumers in that?

[00:12:43] Of course, it depends on the country, and it depends on the trade itself. In Europe, for example, it's quite common to have a domestic employee that is an illegal immigrant and that has been probably trafficked and is paying back the traffickers. Then you mentioned correctly that drugs are quite important. Marijuana, for example, is easier to find in high schools in the United States than cigarettes.

The kids have an easier time getting a joint of marijuana than a pack of cigarettes. That hasn't changed, and the children and the youngsters are doing that. So I am in favor of decriminalizing marijuana. It has been now, finally, adopted by several states in the United States. Again, that releases resources' attention, and focuses on marijuana as a public health problem rather than a criminal problem. Of course, still retaining the ability to identify the large-scale traffickers of marijuana, and that should continue to be criminalized in significant ways. But, again, it's complicated, and it's pervasive.

[00:13:57] For the intellectual property issue, I'm curious what your thoughts are on why Western countries haven't done a better job at reducing counterfeiting. They have multiple interests - not only in protecting their own corporations, but protecting their tax revenue as well - but apart from occasional scenes where we see bulldozers plowing under fake luxury goods, it doesn't feel like we've made very much progress.

[00:14:27] Again, it depends on the country, but in general, that's right. It's massive. The volumes are quite amazing, and the distribution networks are jaw-dropping in terms of their globality. They're global. They're efficient. They are lucrative and resilient, and they are able to sustain all kinds of efforts made by the government. If you go to any large city in the world, you will find people in the streets peddling these products, the bags and the scarves and the shoes and everything else. That's a crime. But also the people that are buying them get involved in what is illegal activity, but it has been normalized in a lot of countries. Just walk through New York, in Manhattan, and you will find people that just have a huge stash of products. They are highly mobile. They're very agile. When they open their products to make them available, they always have a bunch of people buying them. The same with money laundering. You see a lot of the financial executives end up getting significant bonuses at the end of the year, in part thanks to the performance of the bank. It may be that their bank, in some instances, is helping corrupt individuals or criminal traffickers, and they're managing the money for them. I'm not talking about little islands in the Caribbean or in the Mediterranean that are known for being hubs of money laundering. I'm talking about the island of England and the island of Manhattan, in the City of London, the financial hub of the United Kingdom, and in Manhattan, in Wall Street. There's a lot of very strange money operations that are either illegal or just there, very close to the line of what is illegal.

[00:16:30] It still amazes me how an opaque the luxury real estate markets are in those two cities, both London and New York, in Manhattan.

[00:16:37] If you read the Panama Papers or the more recent releases of e-mails, it's quite amazing. They reveal a very intricate network of lawyers, accountants, financial specialists, computer experts that are available. If you have money to hide or wonder, you have a global supply of experts that are very, very good, at times even better than the governments that are regulating these trades.

[00:17:09] Absolutely, and technology has been an incredible tool for nefarious purposes, including these illicit financial flows. Just thinking about technology for a minute - do you see crypto-currencies like Bitcoin helping the perpetrators of financial crime? Can they be regulated in a way that prevents them from being used in that way?

[00:17:30] Yeah, that's anonymous currencies and the anonymous transactions that they facilitate are, of course, an issue. But again, I don't see how you stop that. Bitcoin is still a small part of the international financial system, but I believe that it's inevitable that it will grow, and the more it grows, the more it's going to be possible to hide your international transactions.

[00:17:56] I think you're right. I think if people had figured out how to regulate them, they would no

longer be as attractive as they are. Returning for a minute to your time in the government in Venezuela, could you characterize how corruption has changed Venezuela since that time?

[00:18:15] Venezuela, like all developing countries, like all oil-producing countries, has a problem with corruption, has always had a problem of corruption, and we were making significant efforts to limit the causes, which is lack of transparency, unaccountable discretionary decision-making by government officials. Instead of finding the proverbial honest man or woman that runs an agency, we were trying to have a set of rules that would make things transparent, that limited the discretionary power of the public servants and that increases accountability and made it far more accountable. That, of course, has now gone. It's no longer the case. The Venezuelan government is a more opaque government, probably, in the Western Hemisphere. It is rife with crime and criminals in government. It is the epicenter of drug trafficking, of money laundering, of people trafficking in very large scales and weapons trafficking, too, not to mention counterfeits of all kinds. So Venezuela today has a lot of the trappings of a failed state that includes becoming a hub, a very convenient location from where to conduct international criminal activity.

[00:19:35] That's a very sad picture to paint. Do you have thoughts on what could be done at this point? The U.S., Canada and the European Union have been expanding their sanctions against Venezuela, but it seems that the president isn't really deterred by these. Are sanctions an effective approach to the problems there?

[00:19:55] Yes, I believe it is if they are highly targeted specific individuals with names and specific reasons, either because they are human rights violators or because they are narco-traffickers or because they are just corrupt criminals and they're looting the country. So if one government, like the United States or European Union or others - now, many in Latin America are also following suit - identifies a person and declares that person a target for sanctions because of his or her behavior, I approve of that, and I support it. What I don't support is wholesale sanctions against the Venezuelan economy that will hurt what is already hurting people. There is no worse sanction, there is no more cruel sanction than the ones that the Venezuelan government is imposing on its own citizens. The average Venezuelan has lost something like 18 pounds in the last few years. Medicines are hard to find. Food is in a terrible situation, and the poorer you are, the worse you are. The government seems to be indifferent to this suffering. And, again, I would claim that there is no sanction anyone can imagine that would be more devastating to Venezuela than what is already in place as a set of economic policies pursued by the Venezuelan government, which are essentially designed to keep them in power and enrich the oligarchy that is at the top of President Maduro's administration, and before that, President Chavez. Yes, sanctions can work if they're targeted to specific individuals.

[00:21:41] It's just so sad to see over and over again, in oil-rich countries, this kind of looting and mismanagement. I've seen people play around with the numbers, and it seems that if kleptocrats in some of these countries would just steal even five or 10 percent less than they have been stealing, it could have a real and immediate impact to the good for the lives of the citizens, and it just seems like a modest thing for citizens to ask of their government.

[00:22:08] Unless your government is a dictatorship, which is the case in Venezuela. They have been masterful at creating the impression that there is a democracy there, but in fact, we have had the same people in government, the same regime, the same faces for 18 years. There has not been one initiative that they want to take that has not been possible for them with the support of the Supreme Court, the judicial system and the assembly that they invented. We have a stealthy autocracy in Venezuela that looks like a democracy, but if you scratch the surface, you quickly discover that it's a highly centralized

autocratic state.

[00:22:53] I understand that, but it seems even so that dictators would sleep better at night if they were making even nominal gestures towards progress in these countries. They end up fleeing the country and taking their Swiss bank accounts with them rather than try to compromise at all. We're seeing what a key role that media plays in exposing corruption and international crime. You did extraordinary work as editor-in-chief of Foreign Policy. What do you see as the role of journalism as we proceed uncovering and deterring these networks. Are we getting better at that? We've had the Panama Papers and the Paradise papers, but there's also been a year of people shouting "fake news." Is it still on a strong footing, or is that something we need to be protective of?

[00:23:45] No, I'm very admiring of what journalists around the world are doing - disclose and reveal, investigating reporting of these international illicit networks has been fantastic, and every week or so, we have some new report that requires a lot of courage, a lot of good journalistic prowess, and then the technology now is helping. In that way, I am optimistic that we're getting more. I am saddened by the fact that more journalists than ever have been assassinated in some countries this year. That tells you something. That tells you that, sadly, they're paying with their lives for getting too close to what are the big criminal businesses, and they are reacting. In one way, they know how to react is to kill people. So one has to admire and recognize and celebrate the bravery of these journalists around the world - in Russia, in Mexico, in Venezuela, even Brazil and the Balkans. The numbers are quite significant in terms of how much journalists are being attacked and jailed and, in some instances, shot.

[00:25:05] We've had a podcast with the lawyer of Daphne Caruana Galizia, who was killed by the car bomb in Malta, and that was the sixth unsolved car bomb in two years, so it's a tool that's used, not always against journalists, but a tool that's used widely in Malta, which is a member of the European community. That should be unthinkable.

[00:25:28] Yeah.

[00:25:28] Thanks so much for your time today.

[00:25:30] Thank you.