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The Five Wars of Globalization

The illegal trade in drugs, arms, intellectual property, people, and money is booming. Like the war on terrorism, the fight to control these illicit markets pits governments against agile, stateless, and resourceful networks empowered by globalization. Governments will continue to lose these wars until they adopt new strategies to deal with a larger, unprecedented struggle that now shapes the world as much as confrontations between nation-states once did.

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By **Moisés Naím**

The persistence of al Qaeda underscores how hard it is for governments to stamp out stateless, decentralized networks that move freely, quickly, and stealthily across national borders to engage in terror. The intense media coverage devoted to the war on terrorism, however, obscures five other similar global wars that pit governments against agile, well-financed networks of highly dedicated individuals. These are the fights against the illegal international trade in drugs, arms, intellectual property, people, and money. Religious zeal or political goals drive terrorists, but the promise of enormous financial gain motivates those who battle governments in these five wars. Tragically, profit is no less a motivator for murder, mayhem, and global insecurity than religious fanaticism.

In one form or another, governments have been fighting these five wars for centuries. And losing them. Indeed, thanks to the changes spurred by globalization over the last decade, their losing streak has become even more pronounced. To be sure, nation-states have benefited from the information revolution, stronger political and economic linkages, and the shrinking importance of geographic distance. Unfortunately, criminal networks have benefited even more. Never fettered by the niceties of sovereignty, they are now increasingly free of geographic constraints. Moreover, globalization has not only expanded illegal markets and boosted the size and the resources of criminal networks, it has also imposed more burdens on governments: Tighter public budgets, decentralization, privatization, deregulation, and a more open environment for international trade and investment all make the task of fighting global criminals more difficult. Governments are made up of cumbersome bureaucracies that generally cooperate with difficulty, but drug traffickers, arms dealers, alien smugglers, counterfeiters, and money launderers have refined networking to a high science, entering into complex and improbable strategic alliances that span cultures and continents.

Defeating these foes may prove impossible. But the first steps to reversing their recent dramatic gains must be to recognize the fundamental similarities among the five wars and to treat these conflicts not as law enforcement problems but as a new global trend that shapes the world as much as confrontations between nation-states did in the past. Customs officials, police officers, lawyers, and judges alone will never win these wars. Governments must recruit and deploy more spies, soldiers, diplomats, and economists who understand how to use incentives and regulations to steer markets away from bad social outcomes. But changing the skill set of government combatants alone will not end these wars. Their doctrines and institutions also need a major overhaul.

THE FIVE WARS

Pick up any newspaper anywhere in the world, any day, and you will find news about illegal migrants, drug busts, smuggled weapons, laundered money, or counterfeit goods. The global nature of these five wars was unimaginable just a decade ago. The resources—financial, human, institutional, technological—deployed by the combatants have reached unfathomable orders of magnitude. So have the numbers of victims. The tactics and tricks of both sides boggle the mind. Yet if you cut through the fog of daily headlines and orchestrated photo ops, one inescapable truth emerges: The world's governments are fighting a qualitatively new phenomenon with obsolete tools, inadequate laws, inefficient bureaucratic arrangements, and ineffective strategies. Not surprisingly, the evidence shows that governments are losing.

Drugs

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The best known of the five wars is, of course, the war on drugs. In 1999, the United Nations' "Human Development Report" calculated the annual trade in illicit drugs at \$400 billion, roughly the size of the Spanish economy and about 8 percent of world trade. Many countries are reporting an increase in drug use. Feeding this habit is a global supply chain that uses everything from passenger jets that can carry shipments of cocaine worth \$500 million in a single trip to custom-built submarines that ply the waters between Colombia and Puerto Rico. To foil eavesdroppers, drug smugglers use "cloned" cell phones and broadband radio receivers while also relying on complex financial structures that blend legitimate and illegitimate enterprises with elaborate fronts and structures of cross-ownership.

The United States spends between \$35 billion and \$40 billion each year on the war on drugs; most of this money is spent on interdiction and intelligence. But the creativity and boldness of drug cartels has routinely outstripped steady increases in government resources.

Responding to tighter security at the U.S.-Mexican border, drug smugglers built a tunnel to move tons of drugs and billions of dollars in cash until authorities discovered it in March 2002. Over the last decade, the success of the Bolivian and Peruvian governments in eradicating coca plantations has shifted production to Colombia. Now, the U.S.-supported Plan Colombia is displacing coca production and processing labs back to other Andean countries. Despite the heroic efforts of these Andean countries and the massive financial and technical support of the United States, the total acreage of coca plantations in Peru, Colombia, and Bolivia has increased in the last decade from 206,200 hectares in 1991 to 210,939 in 2001. Between 1990 and 2000, according to economist Jeff DeSimone, the median price of a gram of cocaine in the United States fell from \$152 to \$112.



Even when top leaders of drug cartels are captured or killed, former rivals take their place. Authorities have acknowledged, for example, that the recent arrest of Benjamin Arellano Felix, accused of running Mexico's most ruthless drug cartel, has done little to stop the flow of drugs to the United States. As Arellano said in a recent interview from jail, "They talk about a war against the Arellano brothers. They haven't won. I'm here, and nothing has changed."

Arms Trafficking

Drugs and arms often go together. In 1999, the Peruvian military parachuted 10,000 AK-47s to the Revolutionary Armed Forces of Colombia, a guerrilla group closely allied to drug growers and traffickers. The group purchased the weapons in Jordan. Most of the roughly 80 million AK-47s in circulation today are in the wrong hands. According to the United Nations, only 18 million (or about 3 percent) of the 550 million small arms and light weapons in circulation today are used by government, military, or police forces. Illicit trade accounts for almost 20 percent of the total small arms trade and generates more than \$1 billion a year. Small arms helped fuel 46 of the 49 largest conflicts of the last decade and in 2001 were estimated to be responsible for 1,000 deaths a day; more than 80 percent of those victims were women and children.

Small arms are just a small part of the problem. The illegal market for munitions encompasses top-of-the-line tanks, radar systems that detect Stealth aircraft, and the makings of the deadliest weapons of mass destruction. The International Atomic Energy Agency has confirmed more than a dozen cases of smuggled nuclear-weapons-usable material, and hundreds more cases have been reported and investigated over the last decade. The actual supply of stolen nuclear-, biological-, or chemical-weapons materials and technology may still be small. But the potential demand is strong and growing from both would-be nuclear powers and terrorists. Constrained supply and increasing demand cause prices to rise and create enormous incentives for illegal activities. More than one fifth of the 120,000 workers in Russia's former "nuclear cities"—where more than half of all employees earn less than \$50 a month—say they would be willing to work in the military complex of another country.

Governments have been largely ineffective in curbing either supply or demand. In recent years, two countries, Pakistan and India, joined the declared nuclear power club. A U.N. arms embargo failed to prevent the reported sale to Iraq of jet fighter engine parts from Yugoslavia and the Kolchuga anti-Stealth radar system from Ukraine. Multilateral efforts to curb the manufacture and distribution of weapons are faltering, not least because some powers are unwilling to accept curbs on their own activities. In 2001, for example, the United States blocked a legally binding global treaty to control small arms in part because it worried about restrictions on its own citizens' rights to own guns. In the absence of effective international legislation and enforcement, the laws of economics dictate the sale of more weapons at cheaper prices: In 1986, an AK-47 in Kolowa, Kenya, cost 15 cows. Today, it costs just four.

Intellectual Property

In 2001, two days after recording the voice track of a movie in Hollywood, actor Dennis Hopper was in Shanghai where a street vendor sold him an excellent pirated copy of the movie with his voice already on it. "I don't know how they got my voice into the country before I got here," he wondered. Hopper's experience is one tiny slice of an illicit trade that cost the United States an estimated \$9.4 billion in 2001. The piracy rate of business software in Japan and France is 40 percent, in Greece and South Korea it is about 60 percent, and in Germany and Britain it hovers around 30 percent. Forty percent of Procter & Gamble shampoos and 60 percent of Honda motorbikes sold in China in 2001 were pirated. Up to 50 percent of medical drugs in Nigeria and Thailand are bootleg copies. This problem is not limited to consumer products: Italian makers of industrial valves worry that their \$2 billion a year export market is eroded by counterfeit Chinese valves sold in world markets at prices that are 40 percent cheaper.

The drivers of this bootlegging boom are complex. Technology is obviously boosting both the demand and the supply of illegally copied products. Users of Napster, the now defunct Internet company that allowed anyone, anywhere to download and reproduce copyrighted music for free, grew from zero to 20 million in just one year. Some 500,000 film files are traded daily through file-sharing services such as Kazaa and Morpheus; and in late 2002, some 900 million music files could be downloaded for free on the Internet—that is, almost two and a half times more files than those available when Napster reached its peak in February 2001.

Global marketing and branding are also playing a part, as more people are attracted to products bearing a well-known brand like Prada or Cartier. And thanks to the rapid growth and integration into the global economy of countries, such as China, with weak central governments and ineffective laws, producing and exporting near perfect knockoffs are both less expensive and less risky. In the words of the CEO of one of the best known Swiss watchmakers: "We now compete with a product manufactured by Chinese prisoners. The business is run by the Chinese military, their families and friends, using roughly the same machines we have, which they purchased at the same industrial fairs we go to. The way we have rationalized this problem is by assuming that their customers and ours are different. The person that buys a pirated copy of one of our \$5,000 watches for less than \$100 is not a client we are losing. Perhaps it is a future client that some day will want to own the real thing instead of a fake. We may be wrong and we do spend money to fight the piracy of our products. But given that our efforts do not seem to protect us much, we close our eyes and hope for the better." This posture stands in contrast to that of companies that sell cheaper products such as garments, music, or videos, whose revenues are directly affected by piracy.

Governments have attempted to protect intellectual property rights through various means, most notably the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Several other organizations such as the World Intellectual Property Organization, the World Customs Union, and Interpol are also involved. Yet the large and growing volume of this trade, or a simple stroll in the streets of Manhattan or Madrid, show that governments are far from winning this fight.

Alien Smuggling

The man or woman who sells a bogus Hermes scarf or a Rolex watch in the streets of Milan is likely to be an illegal alien. Just as likely, he or she was transported across several continents by a trafficking network allied with another network that specializes in the illegal copying, manufacturing, and distributing of high-end, brand-name products.

Alien smuggling is a \$7 billion a year enterprise and according to the United Nations is the fastest growing business of organized crime. Roughly 500,000 people enter the United States illegally each year—about the same number as illegally enter the European Union, and part of the approximately 150 million who live outside their countries of origin. Many of these backdoor travelers are voluntary migrants who pay smugglers up to \$35,000, the top-dollar fee for passage from China to New York. Others, instead, are trafficked—that is, bought and sold internationally—as commodities. The U.S. Congressional Research Service reckons that each year between 1 million and 2 million people are trafficked across borders, the majority of whom are women and children. A woman can be "bought" in Timisoara, Romania, for between \$50 and \$200 and "resold" in Western Europe for 10 times that price. The United Nations Children's Fund estimates that cross-border smugglers in Central and Western Africa enslave 200,000 children a year. Traffickers initially tempt victims with job offers or, in the case of children, with offers of adoption in wealthier countries, and then keep the victims in subservience through physical violence, debt bondage, passport confiscation, and threats of arrest, deportation, or violence against their families back home.



Governments everywhere are enacting tougher immigration laws and devoting more time, money, and technology to fight the flow of illegal aliens. But the plight of the United Kingdom's government illustrates how tough that fight is. The British government throws money at the problem, plans to use the Royal Navy and

Royal Air Force to intercept illegal immigrants, and imposes large fines on truck drivers who (generally unwittingly) transport stowaways. Still, 42,000 of the 50,000 refugees who have passed through the Sangatte camp (a main entry point for illegal immigration to the United Kingdom) over the last three years have made it to Britain. At current rates, it will take 43 years for Britain to clear its asylum backlog. And that country is an island. Continental nations such as Spain, Italy, or the United States face an even greater challenge as immigration pressures overwhelm their ability to control the inflow of illegal aliens.

Money Laundering

The Cayman Islands has a population of 36,000. It also has more than 2,200 mutual funds, 500 insurance companies, 60,000 businesses, and 600 banks and trust companies with almost \$800 billion in assets. Not surprisingly, it figures prominently in any discussion of money laundering. So does the United States, several of whose major banks have been caught up in investigations of money laundering, tax evasion, and fraud. Few, if any, countries can claim to be free of the practice of helping individuals and companies hide funds from governments, creditors, business partners, or even family members, including the proceeds of tax evasion, gambling, and other crimes. Estimates of the volume of global money laundering range between 2 and 5 percent of the world's annual gross national product, or between \$800 billion and \$2 trillion.

Smuggling money, gold coins, and other valuables is an ancient trade. Yet in the last two decades, new political and economic trends coincided with technological changes to make this ancient trade easier, cheaper, and less risky. Political changes led to the deregulation of financial markets that now facilitate cross-border money transfers, and technological changes made distance less of a factor and money less "physical." Suitcases full of banknotes are still a key tool for money launderers, but computers, the Internet, and complex financial schemes that combine legal and illegal practices and institutions are more common. The sophistication of technology, the complex web of financial institutions that crisscross the globe, and the ease with which "dirty" funds can be electronically morphed into legitimate assets make the regulation of international flows of money a daunting task. In Russia, for example, it is estimated that by the mid-1990s organized crime groups had set up 700 legal and financial institutions to launder their money.

Faced with this growing tide, governments have stepped up their efforts to clamp down on rogue international banking, tax havens, and money laundering. The imminent, large-scale introduction of e-money—cards with microchips that can store large amounts of money and thus can be easily transported outside regular channels or simply exchanged among individuals—will only magnify this challenge.

WHY GOVERNMENTS CAN'T WIN

The fundamental changes that have given the five wars new intensity over the last decade are likely to persist. Technology will continue to spread widely; criminal networks will be able to exploit these technologies more quickly than governments that must cope with tight budgets, bureaucracies, media scrutiny, and electorates. International trade will continue to grow, providing more cover for the expansion of illicit trade. International migration will likewise grow, with much the same effect, offering ethnically based gangs an ever growing supply of recruits and victims. The spread of democracy may also help criminal cartels, which can manipulate weak public institutions by corrupting police officers or tempting politicians with offers of cash for their increasingly expensive election campaigns. And ironically, even the spread of international law—with its growing web of embargoes, sanctions, and conventions—will offer criminals new opportunities for providing forbidden goods to those on the wrong side of the international community.

These changes may affect each of the five wars in different ways, but these conflicts will continue to share four common characteristics:

They are not bound by geography.

Some forms of crime have always had an international component: The Mafia was born in Sicily and exported to the United States, and smuggling has always been by definition international. But the five wars are truly global. Where is the theater or front line of the war on drugs? Is it Colombia or Miami? Myanmar (Burma) or Milan? Where are the battles against money launderers being fought? In Nauru or in London? Is China the main theater in the war against the infringement of intellectual property, or are the trenches of that war on the Internet?

They defy traditional notions of sovereignty.

Al Qaeda's members have passports and nationalities—and often more than one—but they are truly stateless. Their allegiance is to their cause, not to any nation. The same is also true of the criminal networks engaged in the five wars. The same, however, is patently not true of government employees—police officers, customs agents, and judges—who fight them. This asymmetry is a crippling disadvantage for governments waging these wars. Highly paid, hypermotivated, and resource-rich combatants on one side of the wars (the criminal gangs) can seek refuge in and take advantage of national borders, but combatants of the other side (the governments) have fewer resources and are hampered by traditional notions of sovereignty. A former senior CIA official reported that international criminal gangs are able to move people, money, and weapons globally faster than he can move resources inside his own agency, let alone worldwide. Coordination and information sharing among government agencies in different countries has certainly improved, especially after September 11. Yet these tactics fall short of what is needed to combat agile organizations that can exploit every nook and cranny of an evolving but imperfect body of international law and multilateral treaties.

They pit governments against market forces.

In each of the five wars, one or more government bureaucracies fight to contain the disparate, uncoordinated actions of thousands of independent, stateless organizations. These groups are motivated by large profits obtained by exploiting international price differentials, an unsatisfied demand, or the cost advantages produced by theft. Hourly wages for a Chinese cook are far higher in Manhattan than in Fujian. A gram of cocaine in Kansas City is 17,000 percent more expensive than in Bogotá. Fake Italian valves are 40 percent cheaper because counterfeiters don't have to cover the costs of developing the product. A well-funded guerrilla group will pay anything to get the weapons it needs. In each of these five wars, the incentives to successfully overcome government-imposed limits to trade are simply enormous.

They pit bureaucracies against networks.

The same network that smuggles East European women to Berlin may be involved in distributing opium there. The proceeds of the latter fund the purchase of counterfeit Bulgari watches made in China and often sold on the streets of Manhattan by illegal African immigrants. Colombian drug cartels make deals with Ukrainian arms traffickers, while Wall Street brokers controlled by the U.S.-based Mafia have been known to front for Russian money launderers. These highly decentralized groups and individuals are bound by strong ties of loyalty and common purpose and organized around semiautonomous clusters or "nodes" capable of operating swiftly and flexibly. John Arquilla and David Ronfeldt, two of the best known experts on these types of organizations, observe that networks often lack central leadership, command, or headquarters, thus "no precise heart or head that can be targeted. The network as a whole (but not necessarily each node) has little to no hierarchy; there may be multiple leaders . . . Thus the [organization's] design may sometimes appear acephalous (headless), and at other times polycephalous (Hydra-headed)." Typically, governments respond to these challenges by forming interagency task forces or creating new bureaucracies. Consider the creation of the new Department of Homeland Security in the United States, which encompasses 22 former federal agencies and their 170,000 employees and is responsible for, among other things, fighting the war on drugs.

RETHINKING THE PROBLEM

Governments may never be able to completely eradicate the kind of international trade involved in the five wars. But they can and should do better. There are at least four areas where efforts can yield better ideas on how to tackle the problems posed by these wars:

Develop more flexible notions of sovereignty.

Governments need to recognize that restricting the scope of multilateral action for the sake of protecting their sovereignty is often a moot point. Their sovereignty is compromised daily, not by nation-states but by stateless networks that break laws and cross borders in pursuit of trade. In May 1999, for example, the Venezuelan government denied U.S. planes authorization to fly over Venezuelan territory to monitor air routes commonly used by narcotraffickers. Venezuelan authorities placed more importance on the symbolic value of asserting sovereignty over air space than on the fact that drug traffickers' planes regularly violate Venezuelan territory. Without new forms of codifying and "managing" sovereignty, governments will continue to face a large disadvantage while fighting the five wars.

Strengthen existing multilateral institutions.

The global nature of these wars means no government, regardless of its economic, political, or military power, will make much progress acting alone. If this seems obvious, then why does Interpol, the multilateral agency in charge of fighting international crime, have a staff of 384, only 112 of whom are police officers, and an annual budget of \$28 million, less than the price of some boats or planes used by drug traffickers? Similarly, Europol, Europe's Interpol equivalent, has a staff of 240 and a budget of \$51 million.

One reason Interpol is poorly funded and staffed is because its 181 member governments don't trust each other. Many assume, and perhaps rightly so, that the criminal networks they are fighting have penetrated the police departments of other countries and that sharing information with such compromised officials would not be prudent. Others fear today's allies will become tomorrow's enemies. Still others face legal impediments to sharing intelligence with fellow nation-states or have intelligence services and law enforcement agencies with organizational cultures that make effective collaboration almost impossible. Progress will only be made if the world's governments unite behind stronger, more effective multilateral organizations.

Devise new mechanisms and institutions.

These five wars stretch and even render obsolete many of the existing institutions, legal frameworks, military doctrines, weapons systems, and law enforcement techniques on which governments have relied for years. Analysts need to rethink the concept of war "fronts" defined by geography and the definition of "combatants" according to the Geneva Convention. The functions of intelligence agents, soldiers, police officers, customs agents, or immigration officers need rethinking and adaptation to the new realities. Policymakers also need to reconsider the notion that ownership is essentially a physical reality and not a "virtual" one or that only sovereign nations can issue money when thinking about ways to fight the five wars.

Move from repression to regulation.

Beating market forces is next to impossible. In some cases, this reality may force governments to move from repressing the market to regulating it. In others, creating market incentives may be better than using bureaucracies to curb the excesses of these markets. Technology can often accomplish more than government policies can. For example, powerful encryption techniques can better protect software or CDs

from being copied in Ukraine than would making the country enforce patents and copyrights and trademarks.

In all of the five wars, government agencies fight against networks motivated by the enormous profit opportunities created by other government agencies. In all cases, these profits can be traced to some form of government intervention that creates a major imbalance between demand and supply and makes prices and profit margins skyrocket. In some cases, these government interventions are often justified and it would be imprudent to eliminate them—governments can't simply walk away from the fight against trafficking in heroin, human beings, or weapons of mass destruction. But society can better deal with other segments of these kinds of illegal trade through regulation, not prohibition. Policymakers must focus on opportunities where market regulation can ameliorate problems that have defied approaches based on prohibition and armed interdiction of international trade.

Ultimately, governments, politicians, and voters need to realize that the way in which the world is conducting these five wars is doomed to fail—not for lack of effort, resources, or political will but because the collective thinking that guides government strategies in the five wars is rooted in wrong ideas, false assumptions, and obsolete institutions. Recognizing that governments have no chance of winning unless they change the ways they wage these wars is an indispensable first step in the search for solutions.

Moisés Naím is editor of FOREIGN POLICY magazine.

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