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GLOBAL YOUNG PROFESSIONALS PROGRAM

MOISES NAIM PRESENTS ON GLOBAL ECONOMIC TRENDS

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## P R O C E E D I N G S

DR. BRAINARD: Well, good evening. Welcome to Brookings. I'm delighted you're here this evening. You should feel free to come forward. If you would like to come up and fill in the seats in the front, there's no reason not to.

This is the second in our new series, the Global Young Professionals Program at Brookings. The idea really is to get people who are early in their careers and who are going to be next generation leaders, and expose them to some of the most interesting and inspiring people that we come across. And so tonight, we're really thrilled to have Moises Naim here, just because he really is one of a very small set of people in that category.

Moises is editor and chief of *Foreign Policy Magazine*, a magazine that you should grab a copy of. If you don't normally read it, you should start normally reading it. It's really very high quality. It's gotten all kinds of awards. And it's, more than anything else, just very interesting. And I think

that is very much an expression of Moises's own interests.

He also has a documentary that was done of a nonfiction book that he wrote called, *Illicit*, talking about illicit trade flows in the international economy and was also a distinguished member of government back a little while ago in Venezuela.

To lead us in this discussion this evening, we have Leonardo Martinez-Diaz, who is a fellow here at Brookings with us in the Global Economy and Development Program. He's also deputy director of a commission that we're about to launch on Latin America. He's the author of a forthcoming book called *Waiting for the Barbarians: The Politics of Banking Sector Opening in the Emerging World*.

So with that, I want to hand it over to Leonardo.

(Applause)

DR. MARTINEZ-DIAZ: Thanks a lot, Lael.

I remember when I was an undergraduate, I used to read foreign policy. Back then, it was in the

mid-nineties, the format was kind of a long, you know, half page format, quite thick. It was a bit strange to read because you had to read, you know, like only a few words in a narrow page. And the titles and the overall focus seemed to be quite policy wonkish. And we're talking within a policy wonkish world, it was very policy wonkish.

So, one of the great achievements, I think, of Moises has been to really turn that magazine into something that has -- that can reach really a very broad audience. And what I like about it is it's very timely and tends to look at, opposed to globalization was the initial theme, it tends to look at globalization through a very interesting perspective. There's always an unexpected angle or different lens that you didn't realize until you see the stories.

And one of the things I admire most about Moises, having read him since I was an undergraduate, was just the boldness with which he will approach a topic, which is sometimes bizarre.

For example, I recall an article where he set out to understand then IMF managing director Michel Candasuz's religious views and to connect somehow his Christian world view with his intent to use the IMF to globalize the world and it was quite an interesting story and to engage with the managing director in that context.

Then I remember an important article where he talked about instead of the Washington consensus, he was talking about the Washington confusion and how that idea was all muddled up.

And now, he's gone on and taken on illicit networks, illicit drugs and how they're shaping our world and so on.

So, I think as Lael mentioned, it's very difficult to find somebody who can reach any audience so effectively. And I think what he has done with the magazine has really exemplified what we're trying to do here at the Global Young Professionals Program.

So, let me turn it over to Moises. He will be speaking today about the financial crisis and the

food crisis as well, trying to I'm sure connect very creatively those two. And let me turn it over to him. Moises?

(Applause)

MR. NAIM: Thank you, Leonardo. Thank you, Lael. Thanks you all for being here, for the invitation.

With a group like this I'm very tempted to just have a conversation with you and I don't want to guess what interests you. Therefore, I think the best thing I could do is to be very brief and then have a very active exchange, where you can express your views and questions about things that interest you.

But let me give you some thoughts just to start the conversation and provoke an exchange. And I thought that one way to do it and it will reflect my own thinking these days and my own way of looking at things and look at some of the surprising trends that I think are reshaping the world beyond the obvious. I will not talk about the global war on terror. I will

not talk about Iraq and Afghanistan and that sort or the U.S. election.

Let me talk about, because I assume that we already getting saturation coverage of that and it will -- if you want, we can then talk a little bit about that. But let's just start by throwing out a few of the trends that I see that are interesting.

One is being studied here at Brookings. Homi Kharas and others here that work with Lael and Leonardo and others have identified the fastest growing segment of humanity today and that is the middle class, the emerging middle class. There is no other group in the world today that is growing as fast in population as the middle class.

For the next 12 years, they estimate that the world will increase by about a billion. Yet, the middle class will increase by 1.8 billion. The middle class now is about 30 percent of the world's population. In 12 years, it's going to be 52 percent.

Most of it or a chunk of it, a big chunk of it, of course, is China and India. But what's very



interesting about that research is that they show that it's concentrated not only there, although those are the big numbers, but it's happening everywhere. It's happening in a lot of emerging markets that are open and are fast growing.

So, we're talking Turkey and Brazil and Mexico and Ukraine and Vietnam and countries that frankly you don't immediately associate with the middle class. That is a huge victory for humankind.

And at the end of the day, that's what development is, right? You know, when we talk about let's progress, prosperity, stability, hope, development, what are we talking about? We're talking about enlarging the middle classes of the world.

So, we are better -- I'm not saying and no one is arguing that poverty has ceased to exist and that we don't have huge problems with inequality and all that stuff, but the reality is that in the last decade, a significant number of people have been lifted out of poverty and have become middle class.

Now, that middle class is not this middle class. They're very different from all of us. They have different consumption patterns. They have different political attitudes. They behave in very different ways. But they are more than us and they are going to change the way in which we behave, we consume, our politics, and a lot of other things.

There's going to be a lot of unintended consequences that are even hard to anticipate. The one obvious consequence that is now becoming more apparent than ever is that there are more people eating more than twice a day. Before, what you were talking about is billions of people that before had a caloric intake that was a fraction of what it is today 10 years ago.

And the numbers I think are well known. The number of pounds of meat that your average Chinese individual consumes per year or the number of lentils that are consumed per person in India, or maize for the tortillas in Mexico -- all those numbers have gone up.

And the new middle class not only eats more, they also consume more energy. They consume more cars, more bricks, more metals, more everything. And that explains structural change in the world of commodities that has driven up the price of commodities. And that's something we all read about.

The other characteristic that this middle class has is that it's urbanizing at a very fast click. These are people that are moving to the cities. We are now in the midst of one of the most intense processes of urbanization that humanity has every witnessed.

Last year for the first time ever, the world had more people living in urban environments than in rural environments. And that is going to grow even more rapidly. In 1900, just to give you a sense of proportion, in 1900, about 10 percent of humanity lived in cities. In 2007, it was split 50/50. In 2050, it is estimated to be 75 percent.

And there are some cities that are growing at an incredible speed. Some of the fastest growing

cities in the world, for example, Lagos, Nigeria has 58 new residents per hour, 58 per hour; Karachi, 42; Mumbai, 42; Jakarta, 39; Kinshasa, 39; Sao Paolo, 24; Mexico City, 23 per hour.

So, that generates average densities that are quite amazing. In New York City, peak density is 53,000 people per square kilometer. In Mumbai, it's 101,700 people per kilometer. So, in many ways that creates challenges in where we have the mega cities and that creates all types of challenges and demands and pressures.

So, the middle class, the first thing that they do is, you know, they eat more. The second thing they do is they consume more bricks and things for housing and their dwelling, improving their dwelling.

They also travel more. The World Tourism Organization estimates that in about -- that now, this year, the number of outward tourists in the world is 846 million people, 846 million. By 2020, it's going to be 1.6 billion people. That means that, you know, that trip to Florence or Disney World or Venice is

going to be either very crowded or very expensive or both.

But the middle class not only has all of this -- these are the easy things, easy expectations to satisfy. By easy, I am being facetious because the hard ones are public services, are health and education. So, if you think that feeding billions of people three times a day is complicated and challenging, just think of what it entails to provide safe healthy water or schooling or a hospital for billions of people. For a government, that pace of growth in terms of expectations and demand, it's going to create all sorts of dislocations and all sorts of complications.

Again, there is an old story in political science that originally identified by Sam Huntington in 1968 or something, where he said that expectations and needs in a lot of these countries out-strip the governmental capacity to satisfy them. And when you have that gap between needs and expectations and the ability of governments to supply it, you have this

sort of political decay, political malaise and complications and we're going to have a bunch of that.

So, that's one of the themes that I wanted to raise with you. And the other is that inevitably, it's what we're reading in the headlines everyday and that is the food crisis. It is part and parcel of this growth of the middle class. It has now been exacerbated because there is panic buying, both by individuals and countries.

It has also been exacerbated because there is hoarding, both by individuals and governments that are limiting their exports to the world and by a lack of institutional frameworks to deal with it.

I was mentioning to Lael and Leonardo that one of the things I've done is I've studied quite a bit and I have a book on the global financial crisis. And there are some very interesting parallels between the global food crisis and the global financial crashes of the nineties.

You know, one obvious one is that they all caught us by surprise. Many of the crises of the

1990s caught the experts, governments by surprise. They did not stay in the place they originated. Global financial crisis travels quickly. They spread to other countries very quickly, so is the food crisis.

The other interesting aspect is that they travel following very strange and predictable itineraries. The contagion was always very unpredictable. In the financial crisis, you have situations in which Russia defaults on its bonds and Brazil goes down financially. And there are no real links.

If you looked at the trade flows between Russia and Brazil, they're nil. If you look at financial flows and trade and investment flow between the two countries, these are countries that are almost did not touch each other. Yet, why is it that Russia goes down and Brazil suffers?

Well, there are complicated portfolio related and portfolio management related issues that that explain the trajectory, but that was a big

surprise. The same is happening with the global food crisis. And there are others.

And we can talk more about that, but there is a crucial and very important difference. And that is with the financial crisis, we had institutions, limited, defective, short sided, sometimes wrong, but we had institutions, the IMF, the World Bank, the Bank in Basel, others. And there were some important financial institutions in the private sector that played a role.

That infrastructure, the institutional infrastructure of financial globalization learned. That's a system that learned a little bit, all quite significant. And some corrections were made and some adjustments. And some new tools were introduced and some institutional innovations were created -- were introduced and so on.

And so, global financial crises are still with us. And we're going through one now, but there are institutions and there are systems to prevent it. that doesn't exist with the global food crisis because



the infrastructure for the food system in the world is essentially emergency driven, famine driven, Africa oriented.

The World Food Organization or the World Food Program of the United Nations is essentially -- they have a global scope, but most of what they have always done is intervene when there are famines. And a lot of the famines took place in places like Africa, Bangladesh at some point, and so on.

So, and now they are facing that emergency. And that system is requiring 700 million dollars to take care of the emergency created by the booming in commodity prices. The numbers are quite amazing. From March of last year to this March, corn increased 31 percent; rice, 74 percent; soybeans, 87 percent; wheat, 130 percent.

So, these United Nations organizations need to buy these commodities, this food in the global markets at these prices so that budgets were not enough to deal and so they are requiring some

supplemental monies to deal with that. And it's about \$700 million that grows everyday as the prices go up.

But after they take care of the emergencies, the world still has a problem because you have taken care of the emergency in Chad, but you have done nothing with the middle class family in India that has less money to buy lentils or Mexicans that have less money to buy maize for the tortillas.

And listen, last year, we had street demonstrations in Milan because Italians were marching because the price of pasta had gone up too high, and in Jakarta for soy, the price of soy and rice in many countries and so on.

So, there is something huge going on and that is having consequences. And I think it's one of the largest trends going on today. It's not clear how it's going to be solved. It's going to be a combination of painful adjustments. There is probably going to be reversals sadly in this growth of these middle classes, these emerging middle classes. Some of them will revert to poverty.

And the political consequences are going to be huge. The macroeconomic consequences are going to be immense. From a macroeconomic point of view, you know that we have experienced the best five years in terms of global economics in the last five years ever. The last five years have been just fantastic in terms of global growth, low inflation and everything else.

Part of that was also driven by more fiscal balances. Fiscal balances around the world were doing quite better. That is going to go to hell. Fiscal balances around the world are going to just become imbalanced because governments are going to start spending money to try to subsidize the poor to buy food.

So, the price of food is going to put huge pressures on fiscal balances. Governments are going to run huge deficits. That is going to add to the existing inflation. And so, we may face a difficult transitional adjustment there.

But it's also going to change important conversations. Just imagine the Europeans discussing

about their reluctance and their resistance to buy engineered food. That's easy to do when, you know, it's just an intellectual thing. But when you say, you know, if you allow us to do the genetically modified rice, more people are going to eat rice. You know, it's going to be kind of a different discussion -- it's no longer an intellectual luxury. It may become a necessity.

And then governments are going to be toppled, and that is already happening. Governments - - and there were some interesting initial manifestations of this. President Chavez in Venezuela, my country, lost a referendum in December of last year. He was very popular, and continues to be significantly popular. December 2nd of last year, there was a referendum where he had introduced an initiative where, you know, a new constitution was going to be voted. And for the first time like in 10 years, he lost the election. People think or people say that that had to do with complicated political dynamics, no. It had everything to do with what's

happening with food in Venezuela. You couldn't find rice. You couldn't find milk. You couldn't find chicken.

And so the base of support of President Chavez, the poor of the country, couldn't feed their children. Meanwhile, President Chavez was very active, was very generous acting and you know, giving money away to other countries and that explained quite a bit.

The same happened in Pakistan. President Musharraf also had a referendum. And also, various surveys now show that President Musharraf in part lost that referendum because of what was happening to food prices in Pakistan.

The minister of economy in Argentina resigned two days ago, also because of that. The minister of the economy in Haiti was thrown out of his cabinet post and so on. And this is just the beginning. Egypt is going to be a very interesting complicated place because there is a sad story with bread in Egypt and subsidies and everything else. And

that is going to create -- when a country that is inherently politically very, very complicated is adding a new dimension, a complexity there.

And finally, the food crisis is going to generate a different conversation about subsidies, about the global trading system in the agricultural regime. You know all about the common agriculture policy in Europe. You know how the Doha Round and all the negotiations, the multilateral negotiations with trade have been blocked largely because people could not agree on what to do with the agricultural trade system and the subsidies.

Well, that conversation now is going to look very different. And parts of the solution to the global food crisis requires an adjustment and significant reforms in the world trading systems in agriculture. And that is going to be an interesting part.

And that brings me to my third change that I see coming, and I think I'll end here, which is a very important change in the global trading system. This

change is not in agriculture, but has to do with consumer protection.

In the nineties, there was a very significant wave of trade liberalization. Countries went ahead and deregulated their import and export systems. It was easier. They lowered the tariff barriers. They deregulated the obstacles and non-tariff obstacles to imports and so on.

And what's very interesting is that a lot of the trade liberalization was unilateral. Sixty-six percent of the tariff reductions that took place in the nineties were unilateral. It's not that two countries sat together and said well, if you lower the tariff to my stuff, I will lower my tariff to yours and you know, that sort of negotiation. No, no, countries went ahead and just unilaterally dropped their tariffs because they thought it was going to be better for the competitiveness or stability and so on.

And only 25 percent of tariff options in the nineties were the result of multilateral trade negotiations, the Uruguay Round kind of things. And

10 percent of trade was regional trade negotiations. But you see, during the nineties, those efforts were geared to maximizing the quantity of trade. What countries are trying to do is facilitate and make sure that as much trade as possible would take place.

I predict that in the years to come, the obsession will become not to maximize the quantity of trade but to maximize the quality of trade. And that is -- I don't know if you have been following the case of Heparin. Heparin is a medicine. It's a blood thinner that at last count, killed 150 people in the United States due to a defective batch.

Before that, we had in Panama a cough syrup that also killed 150 people. It was distributed through the social security system in Panama. It was imported through a company in Panama that had imported it from Barcelona that had imported it from China.

And before that, we had the pet scare here, where pet food was contaminated. And then we had the toys that had lead paint and had to be recalled. And we're going to have more of that.



We had another case in which toothpaste was defective and poisonous. It was being distributed. And I'm not talking Nigeria. I'm talking Arlington, Virginia. So, it's here.

And so, we are going to have more of that, and that is going to create a very intense demand and political pressure to do something to ensure that the food you're eating, the medicines you're taking, the toothpaste that you use in the morning to brush your teeth is not going to kill you or your children.

And the first instinct is to try to do this unilaterally. So, there's going to be these strong protectionist demands. A country needs to do this and government needs to protect us. And very quickly governments and citizens are going to discover that they cannot do it alone. No country can tackle this alone. And because again the chain, the manufacturing chain and the value chain, it is global now in nature.

So, that is going to bring back the World Trade Organization. And it's going to give new wind to that organization that has been derided and

neglected and disdained. And countries are going to discover that it is necessary and that only through negotiations through there, is it going to be possible to make some progress in this and respond to what I see as a surge in consumer protection, public safety, and all that that is going to come and stay with us for many years to come.

I have a couple of more things, but let me leave it here and just take your questions and react either to these things or anything else you would like to address. Thank you very much.

(Applause)

DR. MARTINEZ-DIAZ: Can everybody here me? Thanks so much. It's always a very dizzying experience to think about all these global trends. I had two questions, I guess, one on the middle class. I was thinking, what is the middle class. I mean, how do we define it?

And I suppose every country has its own, you know, economic definition based on the mean income and

so on. But the one quality I think that really makes the middle class the middle class is leisure.

It's the -- you know, whatever your economic situation, once you have just enough time in the day to be able to have some free time for yourself -- and still have enough, you know, to meet your basic needs, then you are middle class.

And under that definition then, the middle class is very important for political and cultural reasons because they are people who have actually time to think and to read and to communicate with each other.

So, I was thinking you spoke a lot about the economic implications of the middle class, but what about the cultural and the political implications of this class that is, above all, a leisure class or at least one that begins to have some time to develop other interests beyond those purely material?

This morning during an conference on the economics of happiness, which foreign policy has covered before, one of the interesting insights to

come from this research is that the groups that are most likely to commit acts of violence against the state, those who are most likely to be the fodder for revolution aren't the poorest, but those whose expectations have been most frustrated or as Carol Graham from Brookings calls them, the frustrated overachievers; those who really have begun to hope for the future only to find that there is no hope and therefore, their reaction tends to be far more violent, if you like, than those who are so poor that they have no hope and therefore, they've come to internalize that situation.

So, I'm wondering what we are going to see as the rise of this class with leisure on its hands, what impact will it have on political systems?

I know that's a huge question.

DR. NAIM: But it's a very important question. Now, in terms of definitions, one has to be careful because according to that definition, you know, middle class is also people that have time on their hands and leisure time, most hedge fund managers

in Wall Street will not qualify as middle class because they're workaholics. They don't have any free time. You know, a lot of the population in the United States that is middle class and above does not have a lot of leisure time, and they work very hard and very long hours.

So, that brings -- there is a very precise economic definition and then there is a more sociological culture definition of the middle class. The one to which I was referring, I just was using the ones that your colleagues at Brookings use, and that is it's between the OECD level of poverty, which is I think two dollars -- there is a very precise way of defining it based on OECD statistics.

And so, you take one's ppp level (purchase, power, parity level) between emerging markets and the OECD, and you define it there. And so, that takes care -- that is maybe too reductionistic, but it has the advantage of clarifying and allowing the conversation.

Then there is the other larger and also very valid way of thinking about it, which is the more sociological definition of middle class. And there, you are absolutely right. And that was Huntington's point 40 years ago. *Political and Changing Societies* was the name of the book where he essentially said what you just said.

The problem is expectations and the gap between expectations of the population and the speed. And that expectation, the rate of growth tends to be higher than the rate of growth of the government's ability to satisfy it. And that gap is what creates reactions and what creates frustrations and all that.

And yes, the notion that the middle class is the source of revolutionaries is very old. It's a Marxist thought. And class-consciousness was often associated with that. And remember, it's also a Che Guevara agramshe(sp?). You know, there is a whole literature on who the ones are that are going to stalk the class interest and make people develop their class

awareness. And those are the illustrated, frustrated overachievers.

So, what you always find is that the modern formulations of these things are very interesting. But they hearken back to things that others have said centuries before.

DR. MARTINEZ-DIAZ: The other thought I had when you were talking about this time on food crisis and financial crisis related to that also came up this morning. We had a conference here about Brazil. And the discussion there was really about how policy in many countries gets pulled between two -- in two directions, one is towards greater autonomy and greater self-sufficiency, self-reliance was the word back in the 70s for example, in food security and then towards greater integration.

And all of the things -- it seems that we're revisiting many of these debates as for example, Russia cut off gas flows to the Ukraine, people in Germany and the UK started to realize that these supplies cannot be guaranteed or the same if you talk

about pipelines between Argentina and Chile or Brazil and Bolivia, for that matter.

And food is the same as with energy. There's this increasing realization perhaps that in a system that as you pointed out, has no sort of emergency infrastructure, all that you have really is the market and the reliability that those markets will be there so that your kilowatt of electricity or your grain of wheat will be there when you need it tomorrow.

And if this perception in security and supply is increasing, will that lead us necessarily to return to the idea that every country needs to have its own production of grain, rice, and energy, and clearly, that's not feasible. But what is the alternative, to then create new kinds of political alliances so that there will be a diversification of supply?

Perhaps, for example, new markets might appear to make up for that. Liquid natural gas, for example, might allow those who depend on pipelines to



then become, you know, far more flexible. Is this the kind of change that you envision?

DR. NAIM: The challenge in the years to come is to reconcile short-term emergency needs and long term solutions. The long-term solutions are going to come through these huge incentives that are being created for people to start producing this stuff.

With wheat at 100 and whatever it is a bushel, there is a lot of people that are thinking about planting and there are strong incentives for that. There are strong incentives -- there must be -- with oil at 120, there must be billions of dollars and a lot of very smart MIT engineers scratching their heads and finding ways of creating cheaper, cleaner energy.

So, there is no doubt that when you have these kinds of incentives, the market kicks in and works. We're going to have another sort of real revolution in which food productivity is going to increase and all that.

But again, stimulated by prices, the market system will work. The problem is that in the short term, the people that are starving or are having to cut the food for their children in Brazil or Pakistan or in Vietnam, you know, that's not a good -- you know, that's not something you can tell them. You know, don't worry because in 20 years, there's going to be innovation and there's going to be this or that -- they need the solution now.

And that's why I said that the solution is going to come through higher fiscal deficits, more incentives, more subsidies, and all sorts of interference. We are in a tricky situation where the more you do that, the more you postpone the solution. But at the same time, you cannot afford not to postpone the solution because you have a tragic emergency on your hands. So, it is this -- it's an inter-temporal thing going on and it's going to be very difficult.

DR. MARTINEZ-DIAZ: We should open it up for questions from the audience. Yes?

SPEAKER: Thank you for coming tonight. My question is not quite succinct in my mind, so I'll try to articulate it as best I can. Following on your theme of the emerging middle class internationally, we've seen growth rates in the past 40 to 50 years in Asia and in Latin America reach the double digits in some cases, but there's one area where growth rates between 1966 and 2006 actually on average, you know, there are some outliers, but on average, are decreased by 11 percent in Sub-Saharan Africa.

And what do you sort of see as the factors that are meaded or do you envision happening in Sub-Saharan Africa that can kind of make it move past that point?

And the kind of typical argument that I hear is that it's a governance issue, but in both India and China, I wouldn't argue that the past 50 years have been stellar governance, so how is it that those countries manage to succeed and prosper through innovation and entrepreneurship in ways that Africa just wasn't able to see?

DR. NAIM: Sub-Saharan Africa is a very large place. And it contains different countries with different experiences, different growth rates, and different realities.

Luckily, I think the good news of the past few years is that sub-Saharan Africa has become fashionable. From Bono to Angelina to Jeffrey Sachs to Bill Gates; they only think about Africa. And that's good news.

And we have had some recent very interesting books about -- that try to answer your question. There is -- I'm sure you have heard about the book called the Ballroom Billion. And he argues that there are four major constraints in Sub-Saharan Africa.

One has to do with security. And in some countries it's almost pointless. You know, go to Congo and start talking about economic reforms and financial deepening. You know, they're killing each other and they're using rape as a weapon on a daily basis.

So, you know, first you have to provide security. And so, it's very important, security. The other is trade -- he has a very good example of how I forget which country it is, but that country, the United States has a kind of trade regime with them and the European Union has a different one. And they're thriving essentially because of the exports of their garments to the United States. And he uses that example to show how the trading system is very important.

Then there is the governance issue that you mentioned. And corruption -- governance is shorthand for corruption, right. And there, that's a very complicated story because there's no doubt that corruption is a cancer.

Yet, some of the most successful countries in the world like China, you know, -- China and India, you cannot argue that they are corruption free. And yet, that doesn't seem to hurt them as much -- corruption in those countries doesn't seem to be as

much an obstacle as it is in other countries. So, it's very puzzling.

And the fourth issue -- area that he singles out is the resource curse. If you have too many diamonds, if you have too much oil, if you have too much gold, that ends up being a curse. If you become a mining country and that distorts everything from your exchange rate and that make it very hard to export anything else to the development of alternative industries because then the only game in town is so lucrative and so easy that it stifles and hinders the emergence of anything else.

So, these are the four things. And each country is affected by them in different ways. The cocktail is just different. But the other part of the story is that there are some countries that get it right. And they are saying you know, it is not true, it is no longer true that if you were a sub-Saharan African country, you are condemned forever to poverty and horror.

DR. MARTINEZ-DIAZ: Yes?

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MR. TOMPKINS: Thank you very much. My name is Damian Tompkins. I'm a student at American University. You've given us a lot of food for thought, no pun intended. But it's also a, you know, pessimistic maybe one could argue view towards the future.

I think my basic question is, what reforms do you think are needed? And I'll just try and contextualize that a little bit. Talk about population moving towards the cities. Okay. We do have global population growth, but we need people in the countryside to produce food, to grow food.

Is there a decline in areas throughout the world that are suitable for producing food? What areas do you see as breadbaskets or wheat baskets or rice baskets? Is there environmental factors that are declining in these areas?

Is it -- am I being a scaremonger by saying that it's a possibility that food could become a finite resource like oil, that the areas that we can

produce it in is reducing? Is that being too much of a scaremonger?

And again, you know, subsidies, tariffs, the system, the structure, what changes do you see happening that are necessary to -- like I'm almost foreseeing an Armageddon and I think that's going away too much over to one polar opposite, but you know, I'd be interested in your views. And thank you again.

DR. NAIM: The food crisis, the commodity crisis today -- it's well known. It's driven by both the emergence of the middle class but also the price of oil has a major impact because it affects transportation costs and everything else. But also because it creates the strong demand for ethanol and for -- so, there's a lot of corn and there's a lot of agricultural land that before was being used to produce food and now is being used to produce fuel.

And there was an enthusiasm with biofuels that I think is going to abate, but that also added to it.



And the third is the one you mentioned. There is a climate change element to this, in which harvest seasons are changing, are becoming shorter. In some places, there are new kinds of plant difficulties and yields are changing. And so, climate change is affecting agricultural production in some cases for the better. In some cases, climate change has boosted production. So, we still don't know how it's all going to pan out it.

I don't know how many of you remember or know that in the seventies there was a very famous book called *Limits to Growth* that essentially argued that the world would not be able to grow because there were limits to food production and resource production. There was a resource constraint in growth rates in the world.

That of course has origins in a prior thinker, which was Malthus. Malthus famously argued that population growth was exponential whereas food production was geometrically growing. And so, the gap would inevitably create a situation where the carrying

capacity of the world, so to speak, would generate a crisis. That didn't happen because both Mouthouse and his followers a few centuries later, the club of Rome it was called, which it produced limits to growth. They underestimated the power of markets and the power of prices and the power of technology.

So, they did not take into account the green revolution. The green revolution multiplied yields in rice production life and the factor, depending on the country, was between five and twenty times. And new ways of harvesting, new fertilizers, you know, that there was a big technological shock -- a positive technological shock that boosted agriculture productivity.

And there was also a price -- the price mechanism also kicked in and created strong incentives. So, I think we are entering a period where we're going to have lots of Malthus and concerns about that, lots of Marx, and lots of markets. So, Malthus, Marx, and markets are going to be with us in the conversation for years to come. And they are

going to coexist. And you're going to listen a lot of things that are inspired by the three. And I don't know how it all ends.

SPEAKER: Just following up on that, how long will it take for supply to adjust? I mean, are we looking at a one year crisis or five years or?

DR. NAIM: I don't know. I don't know because I think it's just beginning in very important ways. I think we have not seen some of the unintended consequences. What makes it very hard to predict is that we have not seen the reactions. We don't know what is going to be the reactions to those things.

What happens if every producer of wheat in the world stops exporting? That would be tragic. One of the bad things that are happening now is that governments are essentially closing down their exports or imposing constraints on exports. If everybody does that, that's not like financial panic. Running the bank, except that instead of having a run in the bank, you have a run in your breadbasket.

And so, the reason why it's so easy to predict is because you know how countries are going to react and you don't know what are the politics among other things I discussed. You know, they keep firing ministers because there's a food crisis for which they are not, you know -- what guilt -- how guilty can be the finance minister of Argentina for the fact that the food prices have gone up? But he paid the consequences and there will be more of that.

And so, the next minister you can rest assured is going to say don't worry I'm going to take care of this; we're going to subsidize everyone. And if there's a wave of that, then the consequences and the time frames are different.

SPEAKER: Hi. My name is Anna (inaudible) and I work at the Center for International Private Enterprise. I have recently seen your documentary or a documentary based on your book, *Illicit Trade*, and it's the perspective from which I was listening to your remarks today.

And it seems to me that there is an important connection between the first point and the third point that you made, meaning device and concerns about consumer protection, at least to some extent, is linked with the increase of middle class globally because when we think about say a place like China, obviously a lot of that increase in middle class is connected to shadow economy, which provides, you know, a lot of employment and income and so on.

So, how do we get out of the conundrum of, you know, on the one hand of course, we don't want to condone illicit trade, illicit economies who are obviously not the way we want to go as far as development of those countries. But, on the other hand, how do we control that negative phenomenon without cutting back on the middle class growth?

And you already touched upon, you know, one element of it, meaning revisiting WTO or another international regulatory body or agreements on quality control and trade, but also, I think there is another very important piece to the equation meaning how can

governments of countries like China, India, and so on just create policies and make sure that domestic economies are more productive -- legal economies are more productive so that people do not have to seek for livelihood in the shadow economy.

DR. NAIM: That's a great question, and I don't know that I know the answer. I can only think aloud. To give you context, I wrote a book called *Illicit*. And there was a movie made about the book that aired a couple of weeks ago on PBS.

The essential theme of the book is that there is no more powerful force at work in the world today than smuggling, global smuggling. Smuggling has gone global. The illicit illegal movement of stuff from drugs to weapons to counterfeited products and people, individuals and money is one of the fastest growing industries in the world today. It's one of the fastest growing trades in the world today.

And there is nothing in the world that is happening, that is as transformational as that. And the book argues why. And the central message is that

we're leaving in a very intense period of criminalization of politics and the politization of crime.

A lot of countries engaging in these kinds of trades and criminal activities is the most -- is the fastest way to prosperity and very often is the only way to prosperity. And this is a research that I have been doing for quite a while and about which I know more than I ever wanted to know about all this.

It started out as an interest in globalization. I was interested in and I discovered that these illicit traders were at the forefront of globalization, that if you really wanted to understand where globalization was going, you would do well looking at these entrepreneurs. These are the early adaptors.

These are the fastest -- they can detect opportunities of growth across the planet, across oceans and continents. They can connect Ukraine to China and Naples with Colombia and Sub-Saharan Africa with Naples at speeds that are unrivaled by any

multinational and certainly by any government. And governments, despite their huge efforts, are uniformly failing. There is not one instance that I can find and I don't think you have one instance to show where governments have been successful at containing the growth of these criminal trades.

And if that's the case, then we have a situation on our hands that deserves far more attention than what's going on in Iraq or in Afghanistan. And by the way, you cannot understand what's going on in Iraq and in Afghanistan if you don't understand the role that these illicit trades take place, nor you can understand -- you cannot fully capture what's going on in Russia today or in China, in Latin America, in Mexico, in Africa if you don't include the weight and importance of this -- the role, the politization of crime and the criminalization of politics. That's very important.

And it's very interesting because when you say it, people say and kind of feel that it's true. Yet, it's very easy to have long conversations about



Russia never mentioning it or what do we do in Iraq and never mention this? So, that's a very interesting part.

So, the question was how it is all connected to the point of the middle class. And it is connected because the middle class is not only demanding more wheat. It's also demanding more Prada bags and Rolex watches. They cannot afford Prada bags at \$6,000 or the Rolex watch at \$5,000, but they can afford it at \$50 or \$20. And they create a huge demand for counterfeited Rolex watches. And they are trafficked in the millions in volumes on a daily basis through very sophisticated networks.

So, go out in any of the streets of your cities or this city or New York or Paris or any city and you will find a place or in a corner somebody that is going to sell you an almost perfect replica of a product that has been produced in the world and has -- is the end of a very long chain of crimes that moves volumes that are mind-blowing in dollar amounts and in physical quantities.

So, you ask yourself well, how can this happen? You know, it's impossible for that to happen without the active complicity of multiple governments. And that's the story that is told in the book and in this documentary. And you can catch it on PBS at different times, 3:00 in the morning on a Saturday.

DR. MARTINEZ-DIAZ: We have time for one more question. Yes?

MR. SHELDON: I am Aaron Sheldon with Senator Akaka. My question is about food aid. From a policy perspective, how can the United States or parts of Europe that have at least the potential to deliver massive food aid if not the will, how can we coordinate our food aid efforts with on the other hand, the need to balance the long terms goal of developing local capacity to improve food stocks and meet local food emergencies with local products?

DR. NAIM: That's a challenge, and I don't think there's an answer to that. What we know is that one of every \$2 of food aid in the world is provided by the United States. The United States is the

largest supplier of food aid in the world. There is no doubt that food aid is needed and is urgently needed. The situation is terrible and food aid is necessary, period.

You need to give money and with that money, buy grains and deliver it to the people that need it. But as I said before, after you do that, you still are stuck with a problem for the people that are not in the midst of a famine -- you know, that they're living in a slum in Nigeria in that they will not be the targets of the food aid industry.

And the food aid infrastructure is geared to famines in very remote places. They are geared to taking very large containers in planes and trucks and deliver to Godforsaken places in the middle of Africa. That's the story. There are some -- there is a drought or there is a war. There is no food, so the shipments of grain go to these places in Africa, Darfur and places like that.

Well, that's happening and that's necessary, and budgets for that need to be boosted. But what do

you do with the family that is living in a slum in Nigeria? What do you do with their equivalents in Mexico City? You know, they are hurting and they are not starving in the iconic pictures that we see with children with big bellies that are dying of starvation. That's no longer a scene. It's a far more complicated scene. How do you deliver -- and you can probably -- you cannot deliver food aid directly to them.

There are in some countries very successful systems. The new wave of social policy is conditional cash transfers, it's called, that essentially governments say, I'm going to give you money provided that you keep your children in school. If you take your children in school, I'm going to give you a card and that card is going to give you money for you to buy stuff. But, you know, I need you to get your children vaccinated and I need your children in school everyday. And if you do that, then I'll give you money; especially to the women.

And that is working well. It's working and it's becoming a way, so what you need to do is scale it up and scale it up at a very, very fast pace and also start reaching people that you are not reaching. And again, those are these locations that are going to create the political upheaval that I think we were talking about.

DR. MARTINEZ-DIAZ: Thank you very much for talking to us. Please join me in thanking Moises.

(Applause)

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