Moises Naim, the editor of Foreign Policy *magazine, a leading publication on international politics and economics, has written extensively on economic reforms, the political economy of international trade and investment, and globalization. He was formerly Venezuela's minister of trade and industry.*

In this interview, Naim discusses the dependencia period in Latin America's economic development, the economic and political reform in Latin America, and the positive and negative aspects of globalization.

Why Globalization Is a Crucial Issue Today

INTERVIEWER: Your publication covers globalization. Why do you care about this as an issue, and why should the average educated reader or watcher of this program care about globalization?

MOISES NAIM: Countries have always interacted with one another, but never [have] countries been so integrated with one another. Therefore, more and more what matters here happens there, and vice versa—what happens here matters there. Maybe the ozone layer or maybe the devaluation in Thailand or maybe the production of sneakers somewhere in Asia—that touches the lives of individuals, of companies, of families, of communities in ways that are faster, more complicated, and more disorienting than ever. But [it] also creates great opportunities.

INTERVIEWER: So is globalization a process or a political movement? What is it?

MOISES NAIM: It depends on who you ask. Some people will tell you that [it] is destiny, and that the integration of the world and the world becoming one is more or less the destiny of mankind. Others will tell you it's a fad—we always have had these bouts and spurts of integration between countries. And others will tell you that is a project of powerful interests, and even American interests, to make the world look like they want it to look. Therefore it's a set of ideas designed to push the world into a specific set of policies.

INTERVIEWER: Who's right?

MOISES NAIM: There is a lot of destiny in globalization because it is driven by technology. Technology is a very, very important driver that is going to be very, very hard to stop. But globalization can be steered and some of the costs of globalization can be controlled and limited, and some of the opportunities can be spread more evenly than they are now. One of the consequences, the negative on the belly of globalization, is in equality, is accelerating disparities. But globalization is also creating opportunities that allow people that before were isolated and limited and destined to live within the confines of their own circumstances into a larger world.

INTERVIEWER: How is it possible to steer something that's so powerful and so huge?

MOISES NAIM: First by understanding it better. I think that things have happened at a pace that does not allow for most individuals, organizations, institutions, even those of us that spend a lot of time thinking about it, to really digest everything that's going on. The changes [occur] on almost on a daily basis, and you have all sorts of surprising outcomes and unanticipated consequences happening. This intense globalization is quite a young process. But there are things that can be done, and the more we understand it, the power of ideas, in terms of understanding what is driving it, what are the consequences, what are the opportunities, [we] can help the world design better institutions and better modes of coping with it.

INTERVIEWER: So what are the main ideas behind globalization?

MOISES NAIM: In this recent wave of globalization? As I said, if you read what people were saying when the telegraph was invented, or [when] the steam engine was invented, people started talking about the shrinkage of space in geography and how now it was so easy to communicate across the world with the telegraph, so we have had very similar waves of this. This most recent wave, however, of globalization is different in terms that it is much more individual. The main actors of globalization in the past used to be institutions—big companies, big governments, and so on. Now 15-year-old boys and girls are enmeshed in the Internet and communication across the world, are inventing new ways of looking at things. So globalization in this time and age is much more personal, and it has empowered much more specific individuals.

INTERVIEWER: Why is it such a potent issue today?

MOISES NAIM: Because everybody feels that something big is happening, and nobody is very clear on how her or his family, his company, his country is going to come out of it. It's not clear that this massive change is going to be beneficial for everybody. So there is a lot of anxiety, a lot of apprehension, a lot of uncertainty about how my family, me, my children, my company are going to look like five, 10 years from now.

It's an anxiety-producing and very threatening process because it alters and changes a lot of the long-standing habits, ways of thinking, ways of life that have been with us for many, many years—forever, some of them.

INTERVIEWER: How about you personally? Has it made you feel anxious or threatened?

MOISES NAIM: Sure. You never know. There is much more competition; there is much more need to cope. You don't seem to have time to do all the things you need to do, and it's shrinking the amount of time that you have to do other things.

Latin America's Dependencia Period

INTERVIEWER: Let's back up a few decades and talk about Latin America. Explain for us this theory of the deep and dependencia theory. In a nutshell, what was driving that, what is it, [and] how did it play itself out?

MOISES NAIM: Dependencia is a vision of the world in which the world is like a pyramid, that you have some of the top and some of the bottom. Those at the top exert power to their advantage at the expense of those at the bottom. And those at the bottom are both inside countries and within the international systems. So you have countries at the top that benefit at the expense of the countries at the bottom. And the wealth, prosperity of the countries at the top is only understood as a result of the poverty of countries at the bottom. It was a very limited way of perceiving the economies.

INTERVIEWER: Why did people associate it with Latin America? What was the power of that idea for that region?

MOISES NAIM: Some Latin American thinkers started looking at the way in which Latin American patterns of imports and exports worked, and they saw that Latin American exports were essentially raw materials and minerals. In exchange for that they imported tractors and cars and television sets and refrigerators. They saw the prices of the things that [they] were importing were increasing each year much more than the prices of the raw materials they exported, and they said, "Unless we start developing our own industries, we will always be condemned [to] exporting [goods] very cheap on process, without a lot of value-added things in exchange [for] getting to the sophisticated manufactured goods. So we need to move to an economy that instead of being based on agriculture and minerals is based on industry. The only way for us to compete with those imports is by limiting the imports and therefore forcing our consumers to buy manufactured goods made in this country." Therefore they enacted very high obstacles to the importation of foreign goods, and that spurred the creation of a whole slew of local industries that manufactured the goods and created an industrial base in Latin America that unfortunately was not very efficient, not very competitive, and was very dependent on foreign capital either borrowing or investing. And that then led, eventually, to the debt crisis.

INTERVIEWER: Why was that economic idea popular politically? What chord did it strike in Latin American economy?

MOISES NAIM: Latin America does not have a monopoly on nationalism. You can also see that whenever debates about international trade happen in almost any country they touch the very raw nerve of nationalism made here. Things that are made in this country are better than things that are made elsewhere because they generate employment of our neighbors and families and friends. So there is a very strong nationalistic appeal to the notion of "Let's consume things that are made by us." Well, the reality is that very often that generates [goods that are] more expensive and probably of a lower quality and ends up impoverishing a lot of your neighbors, families, and friends. It may create jobs here and there, but in the long term it may create even more poverty.

INTERVIEWER: The political appeal of the idea you mention began as a Marxist undertones. Then you had someone like Juan Peron adopting [it] as well. Talk about Argentina and the reason that he embraced that idea.

MOISES NAIM: It [was] not simultaneous. Argentina was one of the wealthiest countries in the world. It was a very significant exporter of the world—grains, meat. It was a very, very significant economic player in the world economy. But then a series of global trends including the Depression, including the wars, including all sorts of things going on in the world, undermined Argentina's position, and Argentina began to decline economically. The response was a very political response in terms of continuing as if nothing had happened. [There was] no adjustment, no reforms, no need to [adjust] the policies that Argentina was following to the new realities of the world. So Peron started [what] then became very well known as populism, which essentially was the distribution of wealth that was not being created. That then became very common in many countries in which governments started expanding much more than that were they collecting in terms of revenues and taxes and creating very significant government deficits that then fueled inflation.

INTERVIEWER: So as countries adopted this theory, this policy, you said that a lot of the enterprises were inefficient. How did the process play itself out? When did the inefficiency start becoming apparent, what impact did they have on the economies, and what was the final response the outcome?

MOISES NAIM: The model that we called import-substitution industrialization essentially meant that you would produce domestically what you used to import. Sounds like a good idea, except that when you do it behind high barriers that inhibit the efficiencies of the companies because they are not threatened by competition, you create very lazy, noncompetitive companies that produce not very good goods at higher prices. But if you have consumers that are condemned to use those products, you end up having economies that have a very high propensity for high inflation. At the same time, governments were spending more than they were collecting, [which] also fueled inflation. So you all of a sudden needed to have infusions of foreign capital to cover those gaps. That foreign money then was a chance. In the mid-70s there was an oil crisis, and all of the oil-exporting countries were very cash-rich, and they deposited their cash in banks in the United States, in London, Japan. These banks needed to place that money somewhere, and they lent it to these countries under the assumption that these countries would never default. And that created the debt crisis, because guess what? One day these countries could no longer afford to repay the interest and the capital on their debts. It was a whole category of countries that went to the banks and said, "We cannot continue to serve the debts, to pay interest on capital." That debilitated the banks, and it was very threatening to the whole global economy. As the debt crisis played itself out in the '80s something else happened at the end of the [decade]: the end of the Cold War. So as the Soviet Union collapsed that was a coincidence, almost a perfect storm in which you have very different factors converging and creating a breaking point that then yielded the reforms of the '90s.

INTERVIEWER: Let's talk about when the system started to crack here.

MOISES NAIM: The crack in the capacity of this country to sustain this import- substitution model [started] when the financing for it started to dry up. Essentially this model was highly reliant on foreign flows of capital. The moment that these foreign flows of capital were no longer as available as they used to be, the model cracked. It was ... very hard to keep it up.

INTERVIEWER: So this theory that said "We have to be independent from foreign control" actually was built upon or relied upon a lot of foreign money coming in?

MOISES NAIM: Right, and it was very ironic that it ended up creating even more dependency than what these countries had before. Before they had a dependency that was based on their exports of raw materials and agriculture. Now, on top of that dependency, they also had a financial dependency because they needed money from the international financial system in order to make the model viable.

INTERVIEWER: But what's the lesson of that in terms of the extent in which countries can remain independent?

MOISES NAIM: There is an illusion that you can cut yourself off from the international economy, and some countries have attempted to do it and will continue to attempt to do it. In the future we will continue to see countries that try to drop out from the system and try to build the fence and all sorts of barriers. The lesson of history is that those are short-lived. If you have a lot of oil you can sustain it for a longer period, but we now know that it's very, very hard to create a set of policies that will isolate your country from the vagaries of the world economy. Look at the Chinese Wall and think about what that did for China. Look at all of the walls, either ideological or physical, that have [been] created throughout history to isolate countries, and you'll see that sooner or later they will collapse.

Pinochet's Chile

INTERVIEWER: Let's talk about Chile, the experience of reform there, and what was driving it. Why did the Pinochet government adopt it? Was it Pinochet's idea? How did it come about, how did it play itself out, and what was the impact?

MOISES NAIM: The Pinochet regime overthrew the government of Salvador Allende in Chile in 1973. [When] Pinochet started, essentially they did not have any very well-refined economic ideas. In fact, that government, that regime attempted different things, and different types of ideas were played with. They ran into a way of looking [at] things that was in many ways a precursor of what Margaret Thatcher and Ronald Reagan did years after. That was the idea of having much more open economies, breaking with the notion of this protected barrier that will allow domestic companies to have the monopoly on the production of certain goods, try to create an export-oriented model in which a few companies become very competitive, and try to control government spending. So it was an innovative approach at the time that ran counter to a lot of what was being done in the developing world, and certainly in Latin America. And to everybody's surprise, a few years later it was discovered that it yielded much higher rates of economic growth and some prosperity for Chile than the other approach. Of course, Chile had the advantage of having a very repressive regime—the unions were repressed, and worker demands were limited—and that allowed him to pursue these policies without the usual checks and balances of a democracy.

INTERVIEWER: How was it that an idea that then spread elsewhere—to Reagan and Thatcher? How was it that it was adopted [first] in Chile? Where did that idea come from? Surely not Pinochet himself.

MOISES NAIM: It just happened that Pinochet had several finance ministers and economic ministers, and he tested and burned several economic teams. Then, I think more by chance than by anything else, he ended up with a team of economists that were trained at the University of Chicago in the United States. They teamed with some of the professors there that were very, very strong believers in this more free-market, international-trade, export-oriented-type model, and they started testing them. You could almost say that it was by chance.

Hyperinflation Hits Latin America

INTERVIEWER: Let's talk a bit about Bolivia. From a bigger picture, what was the significance of the reforms implemented in Bolivia for the rest of Latin America?

MOISES NAIM: The story of Bolivia in many ways is also the story of the reforms of Latin America during the '90s. The central lesson of Bolivia was that Bolivia was able to change the subject, the subject being hyperinflation. These countries—because of the debt crisis, because of the structure of the economy and the government spending that had been accumulated during the prior stages—had horrible bouts of hyperinflation, inflation of thousands and thousands percent, in which prices will jump from one day or another. You wake up one day, and money did not have any meaning. It created all sorts of horrible consequences for the poor, for productivity. You cannot leave, run a country, run a company, go to school if the country is just dominated by the obsession of prices that are changing and you don't know the value of anything. You don't know the value of your salary; you don't know the value of anything. That was very common throughout Latin America. Bolivia was one of the first countries that was able to adopt policies that crushed hyperinflation, and a central message was that fighting inflation was possible, that Latin America was not condemned to live with a high inflation, and that was a very, very important message.

INTERVIEWER: And how did that Bolivian experience resonate in bigger countries like Brazil and Argentina?

MOISES NAIM: Yet again we have the power of ideas at play. Once the idea that these countries were not condemned, were not the slave of inflation, that inflation was an illness that was neither chronic nor impossible to cure, then the similar ideas [took hold elsewhere]. And it's not only Bolivia. The same was being explored elsewhere. Even Chile had the same instance. So essentially, little by little during the '80s and early '90s, the idea that inflation could be cured by government policies and that it was not that dependent on this global economy. ... Countries were not just the victims, the passive recipients of what happened elsewhere and [of] decisions made in the power centers of the world. The countries could take some decisions that would make the life of their citizens better. That was a very important idea.

Brazil, Argentina, and Mexico and other countries all have very, very dark, horrible episodes of inflation. Some have hyperinflation. We're talking about 10,000 percent inflation and more. These were larger countries, and one could argue Bolivia could do it because it was a small, isolated, not very well-developed country. How can the same remedies be applied to a country which is a continental-size country like Brazil? The fact of the matter is that if governments spend much more than what they collect, then you end up getting inflation. That today may be almost banal, but for many years that was not clearly seen among policymakers in developing countries.

INTERVIEWER: Now, on the debt crisis. You lived through it. Looking back, what's your most vivid memory? Is there anything, any moment that strikes you as when you really realized how serious it was?

MOISES NAIM: First, I need to clarify that I come from a country, Venezuela, that because of oil was spared the experience of hyperinflation, because whenever you had inflation, the government just took a bunch of oil money and threw it into the problem. So in Venezuela we never experienced the problem. But it is true that if you travel around the region in Latin America you would see the very obvious things that you now take for granted. ... A mortgage, for example. You cannot buy a house with a mortgage; you cannot get a mortgage. Checks. If you have hyperinflation you cannot use checks, because the time that passes between the moment you write the check and the merchant collects the money from the check, that value has changed. So daily life and the occurrences that you take for granted [in] daily life take a completely different tone. Your salary, when you get your salary, the first thing you do instead of just depositing [it in] your bank is [to] run and try to change your local currency into either goods and services that you need, or buy foreign currency. ... Money is almost like a hot potato. Nobody wants to keep local currency. And that feeds on itself, and it's a nightmare.

The Ideology of Import Substitution

INTERVIEWER: Why were these countries able to get so much infusion of foreign capital? Why were foreign banks loaning the money, and what were the expectations?

MOISES NAIM: These countries were able to sustain an import-substitution model for much longer than it was possible because they were funded by foreign banks. Foreign banks were able to fund these countries based on three realities. First, there was an oil crisis in the '70s, and a whole slew of oil-producing countries became very cash-rich. They deposited those dollars, then called petrodollars, in these banks in London and New York and Tokyo. These banks needed to pay interest on these deposits, and so they needed to lend these deposits to somebody else. There we had all of these countries that needed the money. So that was the first, a necessity. The second was a premise, and that is that no country will ever go bankrupt. Countries simply do not go bankrupt, so they believed that if you lend this money to countries you will always get it back. And the third was a political reality that supported that assumption, and that was that a cold war was going on. You would not let a friend, a political, ideological friend of the United States to go bankrupt. The United States will ensure through the mechanisms like the World Bank and the International Monetary Fund that these countries will always have the money they needed to sustain the government in power that was an ideological military ally of the United States. This is not about Latin America only. It happened also in Africa, and it happened around the world. So countries that were economically not viable and [that] were not doing a good job in terms of the economic policies that they had were made viable by the Cold War. But once the Soviet Union collapsed and the Cold War was over, all of these countries discovered that their political [and] military reasons that allowed them to continue their misguided economic policies were no longer there. Therefore they were forced to find a different way, and that different way was reducing the size of their debts, reducing the size of the government expenditure, and trying to create an economy that was less reliant on the influence of foreign money.

INTERVIEWER: A lot of people who watch this film won't know the history of the 1980s. Why was the Cold War such an important issue in Latin America? And how important was Latin America politically to the U.S., particularly to the Reagan administration?

MOISES NAIM: Latin America as a whole was always an ideological ally of the United States. It was the backyard of the United States. It was considered the zone where the United States had unquestionable influence until Cuba happened. Cuba was always a point in that assumption that was difficult to handle. Then there was the influence in Central America, thus the Central American wars when Nicaragua and other countries started having strong influences and moving to the Soviet sphere. But compared to the type of Cold War tensions that you experienced elsewhere in the world, Latin America in many ways was spared, even though in almost all of Latin American countries you had guerilla movements—leftist, Marxist guerilla movements very often financed and funded by Cuba or by the Soviet Union and trained and armed by them that were insurgents against a social order that was ripe for that sort of rebellion. Throughout Latin America inequality and social injustice were rampant, and therefore it was a very good, fertile soil for this type of rebellion.

INTERVIEWER: So the fear was that if you had a country that might go bankrupt, potentially these countries might go communist?

MOISES NAIM: Essentially the fear was that if one of these countries were allowed to go bankrupt that its economy would be allowed to melt down, then the social conditions and the political repercussions of that would create more conditions for these countries to then be more susceptible to fall into the Soviets sphere, the Soviet influence, or adopt policies that are against the interest of the United States.

The Experience of Reform in Latin America

INTERVIEWER: Let's talk about the reform itself. When we talk about that buzzword, what are we actually talking about?

MOISES NAIM: The word "reform" has changed through the '90s. Originally it was thinking about government policies that dealt with monetary issues, with the money supply, with how much the government would spend and how interest rates were defined, how prices were fixed. The idea of this reform was that instead of allowing governments to be the determinance of those decisions, especially fixing prices, fixing interest rates directly and having a very heavy-handed involvement in the economy, [instead to] let the markets play a larger role. That was one part of the reform. The second is size of government. Governments that spent much more than what they collected in taxes, therefore running deficits that cause inflation. The third is having an economy, a productive system that was not isolated from the international economy, that was forced to compete internationally. The companies that were not efficient in terms of producing goods and services at a price and a quality that consumers would want to buy should not continue to be in business. Countries ought to specialize in certain sectors and become exporters of those goods and services. A much more open economy [should be adopted], and foreign investment and foreign firms ought to be allowed in and invited in, and [they should] have a system that is much more market-oriented than what we had before in most of these developing countries, with exceptions in Southeast Asia and other places.

INTERVIEWER: At the same time you had the reform process going, you also had political change in a lot of countries to democracy. Is there a link between the two?

MOISES NAIM: There was certainly a link between the two, as during the '70s and '80s military dictatorships and all sort of authoritarian forms of governments in Latin America bloomed. Latin America was essentially a region where most of the governments were authoritarian. Democracy was very rare, and it was mostly in Costa Rica, in Colombia, in Venezuela, and some bouts here and there, but in terms of prolonged democracy [it] was very rare. The economic collapse of the model and the need to have more voices in the debate and all that was happening in the world also created the basis for a return towards democracy in Latin America, to the point in which today all of Latin America is a democratic region. All of the governments with the exception of Cuba are democratically elected governments in Latin America.

Latin America was another example of globalization in terms of people thinking of globalization just as an economic financial phenomena. But globalization is also a political phenomena in which there is not only financial contagion, when what happens financially in a country also affects what happens financially in another country, but also political contagion. There was great political contagion of the good kind when democracy stated spreading. So the spread of democracy and the spread of ideas that allow economies to be more competitive and to strive to be more efficient was [sweeping] throughout the world. It was by no means a Latin American thing. It was present in former communist countries, in transition countries that were transitioning out of communism, countries in Asia, in Africa. So these movement towards more democracy and more market-oriented policies was a global trend.

INTERVIEWER: Looking back at this experience of reform in Latin America, what were the benefits?

MOISES NAIM: There is no doubt in retrospect that the expectations of the results of these reforms were much higher. Reforms in most countries were oversold. They hoped that they will be the silver bullet that will solve long-standing problems of poverty and equality, [and] a lack of competitiveness in Latin America was certainly very often voiced. [But] it was an exaggeration. These are long-standing problems that have been present in Latin America since time immemorial. Having said that, however, is true that Latin America has had important successes thanks to these reforms, mostly in the eradication of inflation and the restoration of growth. Latin America was a region that for all of the decade of the '80s did not have a lot of economic growth, a lot of employment creation. Now growth is coming back, [but] never at the rate that is necessary to bring into prosperity and increase conditions for the great majority of the poor in Latin America. Nor has inequality been dented, and in fact inequality has increased. And [there] are very important challenges—how to deal with the social issues, and how to deal with inequality, and how to make Latin America a more competitive region, how to make companies in Latin America more competitive and more capable of competing and being part of the global economy.

INTERVIEWER: Right, but it was good that reform took place, correct?

MOISES NAIM: Yes. There is no doubt in my mind that while the reforms were oversold and expectations were too high, the balance is very positive. It allowed Latin America to change the subject. Hyperinflation and inflation is no longer the main challenge in Latin America. The main challenge in Latin America now is what it always had to be, and that is fighting inequality and poverty. Now Latin America is more capable of at least looking at policies and institutions to deal with the horrible poverty and the very, very damaging inequality it has. At least it has a fighting chance to deal with it. With hyperinflation and the debt crisis and the other things that were crippling Latin America, there was no hope of even making a dent on equal conditions and the poverty that reigned throughout the region.

Clinton's Transformation: The Global Movement Toward Trade Liberalization

INTERVIEWER: When President Clinton took office in '92, the economy is on the agenda. A lot of people think at the time the U.S. is falling behind Japan. There's a lot of looking around for answers. Talk about Clinton's transformation as a politician, of his frame thought in the early '90s, [and] how that changed with regard the global economy throughout the '90s.

MOISES NAIM: If you look at the campaign themes that Clinton used to win the election, they were essentially centered on the domestic issues—"It's the economy, stupid." That's the essence of what it is—[a] stale message. Don't talk about anything else; don't do anything else but think about that and do something to improve the condition of the economy. And then all sorts of social policies. Remember the trickle-down economics that he accused his predecessors of relying too much on, just relying on markets and minimizing the role of government in trying to improve social conditions domestically in the United States? He won the election on those two themes, and very soon he discovered several things. He discovered that the world at large was changing profoundly and drastically as countries from the former Soviet Union were demanding to be part of the global economy and wanting open access to trade and investment, ... [to] attract investment, investors from the United States. He also inherited from the Bush administration the idea of NAFTA, a free-trade agreement with Mexico and Canada, that would open and facilitate trade amongst them. That created a very hot debate in this country and within the administration. Some people were saying, "How can you distract us from health care reform?" Remember that Hillary Clinton at the time was also designing the health care reform. ... They were also being forced to take the Congress and persuade their allies in labor and environmental movements and in the Democratic Party the notion of pushing a free-trade agreement with Mexico—all of that plus what at the same time was perhaps under the radar screen, the Internet was booming. In the early '90s the Internet was known and people started having e-mails here and there, but it was not very, very common. But the fact of the matter is that at the same time, unbeknownst to everybody in the administration, the information revolution was about to explode. And when the information revolution exploded it created these improvements in productivity. It was faster, cheaper to do things, and the American companies then took advantage of information technology to become more competitive, to become much more aggressive in their pursuit of international ideals and increased their dimension of the international issues and the importance of the international issues in the daily conversation of the country. Clinton therefore was very quick to realize, he and his administration, the importance of what was going on. He was very well aided by a very competitive economic team made by Bob Rubin in Treasury and Larry Summers and others.

INTERVIEWER: We talked about developing countries wanting to be a part of this. What was the significance of the end of the Cold War to that phenomenon?

MOISES NAIM: The end of communism and the global movement towards freer markets, freer trade, and opening up to international investment created huge opportunities for which American companies were very well poised to take advantage of. American companies were very well positioned to take, to profit, and conquer all of these new opportunities, new markets opening up in China, in India, in Latin America, Indonesia. Those were all countries in which these companies had had businesses, but never before they felt the urge of these countries. All of the ministers, all of the presidents that came to United States had just one request: We want to trade with you; we want your investment; we want your technology. Come and invest in our country. And that was a very systematic thing that certainly started a movement, that fueled the boom and the prosperity that United States has enjoyed in the '90s.

INTERVIEWER: So why did these countries suddenly want so much investment? Why hadn't they wanted it before? What changed?

MOISES NAIM: It depends on the countries. Most of these former communist countries had been closed and now felt that they had a huge need for investment. They needed telecommunications; they needed roads; they needed hospitals; they needed productive companies and computers and manufacturing, all sorts of things. These were countries that for many, many years were underinvested. A lot of their investment was going to the military sector—they were investing a lot on arms and the armed forces—and all of a sudden the Communists and the Cold War was no longer there. They were involved in another kind of international rivalry, not about ideology, but about markets.

INTERVIEWER: America during this period was pushing free trade almost more passionately than the Soviets pushed communism. It sounds like what you're saying is that it was a two-way street. It was coming from the developing countries as well. Could you talk about that?

MOISES NAIM: Think of yourself as the minister of economy of a newly created former Soviet republic. You have an economy that is essentially oriented towards the armed forces and funding a very large military that you no longer need, that you no longer can afford. Your capacity to compete in world markets is very limited. You need investment and you need technology and you need to create jobs. Before, the former Soviet republics created jobs through government employment. Now, that was no longer affordable nor possible, so all of these ministers needed to show results and to show that they were able to create growth and create jobs and to put food and goods in the shelves of supermarkets. Their only hope to do that was through foreign investment, to trade, to trying to generate and bring the technologies that would allow them to export. It was a convergence of an information revolution that was technologically driven [and] of a political revolution that was the end of communism. Those two converged to create realities that underpinned the globalization and the integration of the world's economies during the '90s.

INTERVIEWER: And did the Clinton administration respond to that?

MOISES NAIM: I think they understood it very well. The Clinton administration understood early and well the need to play an important role in catalyzing these strengths, in catalyzing this hunger for free trade and investment that seemed to emerge in the '90s, this hunger for reforms in these countries, [the fact] that all of these countries wanted to follow a more free market-oriented model. They understood the need to steer that global economy in a way that will create all sorts of opportunities for these countries. They also saw it from a security point of view. They were deep believers that the more you trade, the less you go to war. Countries that trade a lot amongst themselves [in which] there is a lot of investment and comings and goings and people exchanges are much less prone to go to war and have frictions than countries that are isolated and mistrustful and don't have a lot of knowledge about each other.

Anti-Globalization in the "Era of Diffusion"

INTERVIEWER: Why did we then see these demonstrations suddenly explode in Seattle against this model you describe?

MOISES NAIM: There was an accumulation of uncertainty—again, the model was overhyped. Globalization was presented as the solution to a lot of problems. Remember that we come from a world and from a history in which there was centralized control in which you either had the Soviet Union or the United States calling the shots. All of a sudden, thanks to globalization, while they still have important power centers, power is much more diffused. If there is a name for this era, it's the era of diffusion, meaning the diffusion both of knowledge, the diffusion of information, but also the diffusion of power. Power is no longer as concentrated as it was before, and the more power is diffused, the more the sense of lack of certitude, the more the sense of lack of control, of who is in charge. Who is running the show? Who is creating all of these consequences? Who is polluting the environment, who is creating an inequality? Who is exploiting child labor in the sweatshops? They all come together under a general [fear] of globalization. But in fact our processes are more dedicated and created by very different determinants.

INTERVIEWER: But if you talk to some of the protesters—Naomi Klein, for instance, would say that actually power is more and more centralized. It's inside these walls that surround the ministerial meetings. It's the same process, but a different conclusion. Why do people feel that? Is she right, or is she wrong?

MOISES NAIM: Power is being diffused. Governments used to be very powerful. Governments used to be able to call the shots. Now governments continue to be powerful but not as before. Now governments have to share power with regions, with local governments. There is a global movement toward devolution. More and more local governments are having [an] important say in what a country does. Central banks that are quite independent limit the capacity of governments to do whatever they want in the economy. The international financial system limits what a government or a chief executive officer, head of state, or a president can do with the economy. The media limits what governments can do. So it's not that governments have lost complete control, but their autonomy [has] shrunk. That's a very important statement. And companies, yes, we have much bigger, very important companies. But these companies are constantly threatened by competition. Hardly a day goes by that you don't see a takeover, that you don't see a threat for an established company either coming from governments or coming from competitors. Even Microsoft, one of the [world's] largest companies, if you ask Bill Gates what he worries about ..., he will tell you that he worries if his company is going to be there in the next five to 10 years, because he's been threatened by governments, by hackers, by competitors, by vendors, by international circumstance. So nobody can sleep at night being assured that the future is going to be as it is the present. The reality is that we live in a world that is much more uncertain, and the old rules no longer apply. That habits that have been with us forever are no longer functional. There is a lot of adjustment and a lot of uncertainty.

INTERVIEWER: But there's a lot of talk now about the rules of the game and creating institutions that can deal with this new system. First of all, who is writing these rules? And secondly, can you actually write rules that can define and guide this complex, very powerful system and force behind it?

MOISES NAIM: Most of the protestors in the anti-globalization rallies will tell you that one of the problems is that there is a small [group] of technocrats writing rules that will affect the whole world. If you look at institutions like the World Trade Organization or the World Bank or the IMF, very soon you will find that these are embattled institutions. If these are institutions that are very often underfunded, they are also limited in what they can do. And they have to contend with a general perception that they are all-powerful and they can do whatever they want and they have infinite resources. That is not the case. It is also true that if you look at these summits and what they have achieved, all of these summits, at the moment that they are announced, all the protestors flock to protest. Well, look at what decisions have been made in these summits in the last five to 10 years. Not a lot. So the protestors ought to be protesting about the lack of capacity of these summits to generate and make decisions that will make the world a more stable, better place instead of being gridlocked and paralyzed by contending interests and veto powers that limit the capacity of the world to make the decisions to create the rules. The protestors ought to be protesting about not enough rules, not that the rules are [too many]. The protesters ought to be protesting about this gridlock in the world's capacity to create a framework of rules and institutions to guide the global economy.

"No Silver Bullet Against Inequality"

INTERVIEWER: In your view, what can be done, if anything, about global inequality? And if nothing is done, what are the stakes?

MOISES NAIM: When one talks about inequality, one has to differentiate between inequality among countries and inequality inside countries. The only way to fight and have some success in the inequality between countries is to have more transparent rules of trade and investment in which access is allowed, in which developing countries are allowed to export in fair conditions to other countries and vice versa. Unless we develop a very, very efficient fair, strong, and forcible system of rules, regulations, and institutions to guide world trade and investment, we will be very frustrated in terms of inequality in between countries.

But then inequality within countries has three dimensions. First, inequality is morally unacceptable. Second, inequality is politically destabilizing. Third—and this is something that we have come to realize in the last few years—inequality is very, very debilitating in terms of the capacity of a country to become part of the global economy. If a country is highly unequal, it is very likely that a majority of the population will not be well educated and healthy enough to be able to be the workers that allow a country to compete in the more knowledge-intensive industries that are part of the global economy. So the stakes of not making progress in fighting inequality inside countries are very, very high, morally, politically, and economically.

And the solutions to that, there's no silver bullet against inequality. What we know is unless you provide better health and education, those are two receipts that we know. And unfortunately we know very little about how to make institutions that deliver health and education to these countries more efficient. If you go to any developing country in the world and you look at what is the most corrupt, the most inefficient, the most badly managed institution in the country, you will see that it has to do with schools and universities and hospitals. And unless the world quickly learns how to manage efficiently hospitals, universities, and schools, the battle against inequality is going to be very, very weak.

INTERVIEWER: On the question of property rights in developing countries, what's your take on the significance of that?

MOISES NAIM: Giving title and property rights, enforcing property rights in these developing countries is a very important idea. The notion that you will give people that are just living in a shack title to that shack and make them owners [who] then can use that title to get guarantees and credit, I think that is a very interesting idea, but we have to be very careful not to overhype it. If there's something we have learnt in the '90s is that there are no silver bullets, that there is not just a single idea that can take care of the multifaceted, varied problems that afflict these countries. So yes, property rights and granting people property rights and having mechanisms that enforce property rights in these countries is indispensable. But let's be careful not to transform that [into] the beginning and the end of a development policy.

INTERVIEWER: What you're talking about in terms of education and health care, making that more efficient in developing countries, does that require a political change within countries?

MOISES NAIM: It requires a lot of political change, but at this point I regard making progress in terms of better education and better health in these countries more of a challenge for ideas than for politics. The politics are lousy around health and educational systems. All around the world the politics are horrible, and reforming, changing health systems and educational systems is very hard to do. But also, one should not lose sight of the fact that the ideas about how to reform and in which direction they should go are at this point very poor. We have some tentative general trends that one can imagine would yield better hospitals and schools, but it is very important to know that the people in charge of producing better ideas about education and health have not provided us, have not equipped the world with a very good toolkit on how to really make schools and hospitals successful.

How Can Developing Countries Attract Foreign Capital?

INTERVIEWER: We interviewed the head of the CalPERS pension fund, and he's very concerned about questions of inequality, but he also said, "Look, for me, as an investor, most of the developing world is essentially uninvestable." He can't in good faith put the money of these pension funds in most of the developing world, even if he'd like to. And yet he also says that if you don't find a way to invest in these countries, in the long run you could potentially have a backlash of the whole global economic system, and that could create a lot of problems. What's your sense of the extent to which you need to bring developing countries into the global economic tent?

MOISES NAIM: It's indispensable that developing countries, the so-called emerging markets, become a more reliable investment site for investors around the world. It is very important that the volatility, that the changes in the fortunes of these countries become less pronounced and these countries become more stable and investors have a better perception that their money will not be too much at risk once it is invested there. That is one of the big challenges. It will not be achieved by developing countries as a whole, as a category. That is going to be very difficult because they are very different. It is a highly heterogeneous group. But the developing countries that mange to convey to the world that they are stable places where investors can be assured that they will have good returns, reasonable returns for their investments are the ones that are going to make a big inroads in their fight against social conditions that are unacceptable.

INTERVIEWER: But does that mean that developing countries have to essentially play by a different set of rules to attract that kind of investment?

MOISES NAIM: No, developing countries need to be very competitive in their capacity to attract foreign capital. They need that foreign capital to fund all sorts of activities inside a country. In order to do that they have to have property rights. People need to have the feeling that their property is protected. They have to have the feeling that companies are transparent, that government corruption is not pervasive, that the rule of law is respected, and that the aggregate economy is managed in a way that ensures some stability, that you don't have fits and starts and devaluations and policy measures that make you lose half of your money overnight. Countries that achieve that sort of stability, that sort of institutional framework that ensures transparency and ensures property rights are going to do much, much better than countries that will be mired in political gridlock, instability, and the volatility of their economies.

"The Globalization of Sushi": The Interconnected World

INTERVIEWER: Let me just ask you about a couple of anecdotes about globalization. Talk about the globalization of sushi as an example of this phenomenon.

MOISES NAIM: Globalization is very paradoxical and offers all sorts of surprises and counterintuitive things. If 10 years ago I would have suggested to launch global fast food that would be raw fish wrapped in black seaweed, that we are going to launch this globally and make it a common food around the world, people would have said that's crazy, that's impossible. But that's exactly what happened with sushi. Now you can find sushi bars in ballparks in the United States, you can find it in Tel Aviv, you can find it in Bolivia, and you can find it in places in Africa. When one thinks of globalization, one thinks of McDonald's becoming the common homogeneous American food around the world. But there you have sushi, which is this improbable food that is now become a global type of fast food.

And the case of sushi illustrates that the cultural dissemination of tastes and eating habits not only goes from the United States to the rest of [the] world and is not only about hamburgers. You [also] have much more complex dissemination and diffusion of habits and tastes like the one from sushi to the rest of the world. But also illustrates another problem of globalization. More and more, because of globalization, there are problems that cannot be tackled by any country acting alone, even if that country is a superpower. Because of the popularity of sushi, tuna, which is a main raw material for sushi, is being overfished. So you need to create some sort of arrangement, [but] tunas are long-range—they can swim across national boundaries; they don't respect national boundaries—and so you have these fleets that go around the world and fish for tuna. So there is a need for an international body, an international agreement of countries that more or less sets a framework for the fishing of tunas, otherwise tuna is going to be depleted.

But no country can solve that problem alone. That requires collaboration; that requires multilateral actions, countries acting together. You find it in tuna, but you find it in the drug trade. You cannot deal with [the drug trade] by acting alone. Terrorism, the environment, arms, the protection of intellectual property, your software, your trademark, your books, the piracy of trademarks—all of these are problems that cannot be tackled by any country acting alone. So globalization is creating all these pressures from the diffusion of habits that are highly improbable, like the global diffusion of sushi, to the creation of needs for concrete actions by governments acting together. And as we know, governments acting together is one of the most inefficient, cumbersome ways of making decisions.

Creating Institutions to Manage Crises of Globalization

INTERVIEWER: All those issues you described—law and order, trade—governments individually have figured out ways to regulate those issues within their own borders. But it took a long time for each government to figure out the right rules that worked for them. Now you are talking about a world [in which] things are happening so quickly, and yet there's a need for rules about sushi worldwide. How can we have institutions that are flexible enough, that come into existence quickly enough, to deal with these?

MOISES NAIM: We can't. One of the problems of globalization is that it's creating demands at a faster pace that the capacity of any institution, any human institution, and in fact the capacity of any human being, to digest, to understand, and react effectively. So if even individually we have a hard time coping and reacting to the demands of globalization, at a more global level, [asking] different governments to get together and come up with an institution charged with dealing with these very complex new problems, unprecedented problems, is going to be very, very hard. That is one of the underbellies of globalization. It is requiring [new] institutions at a faster pace than we are capable of creating effective institutions.

INTERVIEWER: So what does that mean? Do we just give up?

MOISES NAIM: It means that we are going to have a highly bumpy road ahead, in which the lack of institutions, the institutional failure will combine with market failures to create instability. But very often that convergence of institutional failure and market failure will create [a] crisis that then will engender a need to provide effective responses. So it's going to be a very complex, volatile process of institutional creation, of failures, of crisis, of responses to crisis, sometimes effective management of crisis, and sometimes very ineffective, clumsy management of crisis.

INTERVIEWER: Was the global contagion of '97-98 a precursor to the kind of things we are likely to see?

MOISES NAIM: Yes, the financial crises of the '90s have had very positive effects. First they showed that you can't have a crisis and not have its effect lingering for decades. When we had a financial crisis in the in 1980s it [took] 10 years to play itself out and to get cured. In the '90s we had crises that eventually got solved in two or three years, for the most part. But also it immediately created the need for rules and institutions that are now in place, [which] more or less ensure that that type of crisis we will not have [again]. We will have others for which we're not prepared, but the crisis of the '90s did create series of measures that, [though they] are not sufficient, they created some progress in the creation of institutions that deal with this type of emergency.

INTERVIEWER: And what are the institutions that would prevent that [kind of contagion from] happening again?

MOISES NAIM: The 1990s contagion was very different, but there are all sorts of measures that have to do with accounting standards. There is a debate in these circles between the architects and the plumbers. The architects say you need to change the whole architecture of the global financial system. The plumbers say forget it, you're not going to get the ... political will to do all of this, what we need to change is the wiring and the plumbing of the financial system. We'll deal with very technical, very specific things, that, while not being solutions to the problem, can be very effective in creating early warnings, in creating better remedies, in trying to anticipate some of these things before they happen and reacting better when they [do] happen. That doesn't mean that the world is immune to a widespread financial crisis, because we don't know, by definition, what form it will take, but we know that the types of problems that triggered the crisis of the '90s are not going to generate similar types [of problems] because some remedies are in place. We will have others, however, for which we are not prepared.