

World Bank Head Robert Zoellick Offers Broad View of Global Issues

**The Honorable Robert B. Zoellick
President
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Excerpts from Mr. Zoellick's Remarks

Why a Career in Public Service? It may seem a little quaint now, but I thought public service was the highest calling, if you are able to do that, and I knew I didn't have the base or anything for elective office.

What Is the World Bank All About? We try to look for things that can help develop markets, institutions, capacity. It may be carbon markets. It may be local currency bond markets. It may be microfinance markets. So part of the challenge is to see the institution as a cooperative problem solver, and so if somebody asked me today what is the bank most about, I'd say about development solutions, and part of this involves political economy judgments as well as financial ones.

How Much Longer Will the World Bank President Be an American? These are done through votes, and the United States has a little over 15% of the votes for the World Bank and the IMF. So as long as the U.S. and Europe have the deciding number of votes, this has been sort of the understanding of them.... I think it's a good thing for the United States to have a role, including a leadership role, in multilateral institutions, and if you ask yourself has there ever been an American head of the IMF – has there ever been an American head of the WTO – has there ever been an American...UN Secretary General – has there ever been an American head of any of the regional development banks, you're going to come up with a big fat goose egg. So, frankly, it's not so critical that it is the bank, but I do think that for the United States and the world system as a whole it's good to have Americans in some of these positions and, frankly, I spend time with the Congress and this actually helps people have a sense of why these institutions and multilateralism are important.

What Worries You the Most About Where the Global Economy Is Going? The euro zone....Just to give you a sense of how the world has changed, in the past 5 years, two-thirds of global growth has come from developing countries. So part of the change of the nature of the World Bank is that what used to be seen as charity or good heartedness is now fundamental mutual interest and national interest, because that's where the growth is coming from, a lot of opportunities are coming from.

Will Greece Leave the Euro? No....I think the core question will actually not be Greece. It's Spain and Italy, and the Spanish and Italian governments are undertaking some very difficult fiscal reforms.

Where Are the Business Opportunities? People pay attention to China or they pay attention to India, and they should. But what they also should recognize is there's lots of other individual

opportunities and markets where people are doing reforms....I don't know how many people know about Rwanda, but the government of Rwanda is doing some very interesting things and there's probably going to be some interesting business opportunities.

What Advice Would You Give the Next U.S. President? I'll share an anecdote...the new Foreign Minister of Australia was in Washington the past couple weeks, Bob Carr...And he said that the United States is one budget deal away from restoring its global preeminence, and then he said, but also I have to point out that in my region of the world, in the Asia Pacific, there are voices that are saying the United States isn't up to this – you better listen to us. So that would be the focus of my advice and I would say...probably like a number of people I think that Erskine Bowles and Senator Simpson did a very good service.

What Is the Political Trajectory of China? Among Chinese economic thinkers, there's a 3-day seminar down the Yangtze River that is very influential....some of the Chinese came to me and said, look, one of the issues we're discussing in China is how to avoid the middle-income trap, and this is a broader issue. You get to a certain level of growth, and how do you maintain that? So they suggested that I suggest to their leadership an effort to bring together international talent to look at this. And the person who picked that up in particular was Li Keqiang, the man who's likely to be the next Premier, who was blessed by President Hu and Xi Jinping and others, and we were asked to work with the China reform commission and this was under the state council. It's a major think tank.

We really took as our mandate the fact that China itself has said in the 2012 5-year plan it wants to move towards greater consumption and greater domestic demand. But what does that mean in everything from the role of state-owned enterprises to land and labor and fiscal reforms and environment? So we produced a rather extensive report. I really respect the Chinese, a country growing 10% a year for 30 years, who at least step back and say look, we suspect this model won't keep working for the future – how do we need to change it?

Again, to reference that, maybe Europe and the United States should think a little bit more in some of these terms as well. So I'm doing a little advertisement here, because much of the world focuses on the fiscal, monetary, and spending issues, and I'm a big believer in the microeconomic agenda as well.

DAVID RUBENSTEIN: Welcome to members and guests of The Economic Club of Washington, for this luncheon here at The Grand Hyatt Washington. I'm David Rubenstein, President of The Economic Club of Washington. Welcome to everyone.

I will briefly introduce our guest today, Robert Zoellick, President of the World Bank Group, and then we'll have a Q&A format. Very few people in Bob's generation have served in public service in so many distinguished positions, and usually when you have many different distinguished positions in public service your reputation actually goes down eventually. [Scattered laughter.] His reputation has gone up every time he's had a position and that, I think, is attributable to his intelligence, his hard work, his focus, and his real commitment to doing public service.

Bob is somebody I've known for a while and I really admire all the things he's done. Just to review his career briefly, he's from Illinois, he went to Swarthmore College, where he graduated Phi Beta Kappa. He went to Harvard Law School, graduated *magna cum laude*, and also graduated from the Kennedy School of Government at Harvard. Then, after a clerkship

with Judge Patricia Wald in the District of Columbia Circuit, he wound up in the Reagan Administration working for Secretary Jim Baker at the Treasury Department. Then, as Secretary Baker moved to the State Department as Secretary of State, Bob moved with him. When Secretary Baker moved back to the White House at the end of the Reagan Administration, Bob moved with him as well there.

When Bob left government, he moved into the private sector, but was called back into the Bush Administration, where he served as Special Trade Representative, a Cabinet office, and did a distinguished job in that position. He was then asked by President Bush to serve as Deputy Secretary of State. After that, he left government briefly and then was called back and appointed as the 11th President of the World Bank, appointed by President Bush. He took that job on July 1 of 2007 and on July 1 of 2012 will have fulfilled a 5-year term. He has decided to leave the World Bank and do something not yet announced, but I'll be getting into that. Anyway, Bob has had a...

ROBERT ZOELLICK: Good luck. [Laughter.]

MR. RUBENSTEIN: ... distinguished career, and we're very pleased to have somebody with such a wide perspective on the global economy and a whole variety of other things that go on in Washington. So let me ask you at the beginning, Bob, when you started your career, you graduated from law school and the Kennedy School. did you expect to spend the bulk of your career in public service? Was that always your goal or did you ever expect that you would do something different?

MR. ZOELLICK: Well, let me answer that indirectly by first saying thank you to you, David, for something, because, as I'm sure everybody is aware, you've directed your philanthropy in a number of different areas, but for somebody who cares a lot about American history and some of the things that you've brought , it's been extremely...

MR. RUBENSTEIN: Thank you very much.

MR. ZOELLICK: ... generous and I'm one of the people that looks at this and says, boy, really great that somebody takes the time and effort to do this. So history was my inner connection. I've always enjoyed it.

MR. RUBENSTEIN: You majored in history in college?

MR. ZOELLICK: History and economics, and so my sense sort of growing up – you know, my father came out of World War II and Korea – was that one of the ways that you could give back to your country was in public service. It may seem a little quaint now, but I thought public service was the highest calling, if you are able to do that, and I knew I didn't have the base or anything for elective office.

So I was trying, in my own kind of stumbling way, to prepare myself with a different background – history, economics, finance, law, different aspects – and the good fortune that I've had in my life is to have some very good bosses. So, you know, I tried to work with people who I can learn from, and knowing enough about the American system I suspected that

you would need to have opportunities to be in government but also outside government, so I graduated from college in the 70s and law school in '81. We used to think the law profession was an alternative. Turned out not to be that way so much for me. So the idea was really how to continue to learn and expand across these areas and, frankly, you know, benefit from the experiences I've had with very good bosses.

MR. RUBENSTEIN: Who was the most impressive of those bosses?

MR. ZOELLICK: This is tricky. [Laughter.] Well, I, obviously, worked a long time with Secretary Baker, starting with him at Treasury in 1985, and also being involved with him with the '88 campaign, which was my first exposure to elective politics. I have enormous respect for him because, not only was he able to bring together skills of substance and bureaucratic politics, but he also knew something about elective politics. But I think the thing that was most important — and I didn't fully recognize this perhaps until later in my career — is that for Baker and the people that he had, every day was asked, what can we do to get something done? I mention that because it's my inclination in life anyway, so it was natural. But I am sometimes surprised by how many people, when they get into public service, they're kind of there to go through the inbox or have the seat, and at least for me the purpose of those posts is to have an opportunity to make a difference.

MR. RUBENSTEIN: So you've worked for four Presidents – President Reagan, Presidents Bush 41 and Bush 43, and you've served with President Obama

MR. ZOELLICK: Actually, I was in the Ford Administration, and this is a nasty little secret, but I took a leave of absence when I was at the law school working for Phil Heyman in your Administration, the Carter Administration in the Criminal Division.

MR. RUBENSTEIN: ... and you've obviously overcome that problem, but – [laughter] – you don't put that on your resume. I can understand that. [Laughter.] But so....

MR. ZOELLICK: We were hunting down criminals. That was acceptable under any government.

MR. RUBENSTEIN: OK. So of the Presidents for or with whom you have worked, how would you compare their decision-making style?

MR. ZOELLICK: Oh, now this is even getting trickier. Well, I think the main way I approach that is that any President, you know, brings a different combination and it's really the job of those working with the President to adapt to the President's style. I saw this in most sharp relief, I guess, when I was younger, in the Reagan Administration, when I was working at the Treasury Department and Reagan and sort of Bush 41. One of the lessons, I think, that has to be learned is the combination of arts. In the American system, the President is the head of state as well as the head of government, and so it's partly the communication, it's partly the symbolic role.

And as sort of a student of government, you know, I say this across Administrations – I was just talking with President Clinton recently – you know, there’s an art of being – how he would combine those. But I do think that the key is some sense of direction – what you want to try to accomplish. For Reagan, that was at a different level and form than it was for Bush 41, and so for Bush 41, with the great international exposure and experience he had, I think the country and the world were very fortunate to have him there at the end of the Cold War. I know that I might have wished we might have been more aggressive in the aftermath, but he was proven to be correct. And what I’m talking about was, for example, when the Berlin Wall came down there was a lot of commentary about, you know, how he should be exulting more, and he was very careful about that because he was playing for a longer term and he was developing a relationship with Gorbachev, which, you know, ended up serving the United States and the world very well.

So it was just very, very different styles. But I guess the other part of it, since this is a hot topic today, is that there are periods in America when there’s the idea that, well, our Constitution is dysfunctional and it won’t work. I’m an adamant opponent to that. I saw that, you know, in the late ‘70s and the Reagan Administration, and so I think, frankly, one of the challenges is how the Executive branch works effectively with the Congress.

You’ve got some former Members here. And I’ve seen this from different angles because when I came into Republican Administrations you had Democratic Congresses and they had been in Congress a long time and they expected to continue to be in Congress. And now I’ve seen this across different aspects and the reason I’m giving this some thought is probably like people in this room – I’m thinking about things like fiscal cliff and kind of where the budget issues go, and I think part of the challenge for an effective Executive is also having a strategy to work effectively with Congress.

MR. RUBENSTEIN: Well, let me ask you, when the World Bank was set up after World War II, it was thought that it was necessary to help a lot of so-called developing countries. Now it’s a long time after World War II. The developing countries have renamed themselves emerging markets and many of them are actually doing much better economically than the so-called developed markets. Why do we still need a World Bank?

MR. ZOELLICK: The way that I look at the bank today, and in the past and in the future, goes to that origin. World War II was still going on actually when the bank was created in 1944, and it was created by a group of people who were thinking, how did the economic crises and consequences of the 1920s and 1930s lead to this disastrous world conflict? And so they developed the IMF to deal with issues of currency and exchange rates and balance of payments. The World Bank was really there first for reconstruction. The first loan and the largest loan to date in real terms was to France.

Development was kind of a secondary issue, because at that time many of today’s developing countries were still colonies, and then they actually created something called the International Trade Organization. Didn’t pass the Senate. They relied on the GATT for the trade area and then, you know, that eventually became the World Trade Organization. The issues of trade, currency, development, reconstruction, exchange rates – those look pretty current to me in the newspapers, and so the question is how do you modernize these institutions to meet for the different challenges, and the starting point for me is we still live in a world of

sovereign states. That's the key governmental bodies. But there's actually a very thin tissue of multilateral institutions that try to connect them to work together on common problems.

So I think that those institutions if anything are more important than ever, but how they operate has to change. So the World Bank, you know, in circa 1950 was a bank where you had capital controls, limited restrictions. Now we're in a world of much greater private capital flows. And so part of my challenge and others at the bank is, you know, we've done some various things with IFC, our private sector arm.

We've done some things where on the knowledge side, because of the success in developing countries, the lessons are coming from other developing countries to other developing countries. So the work we do in the Middle East and North Africa today draws off work that occurred elsewhere in the world.

So one of the ways that I sometimes describe the work at the bank is that our problem is we're called a bank, and so most people at least used to think that banks were about putting money out and what -- [laughter] --

MR. RUBENSTEIN: And sometimes getting it back.

MR. ZOELLICK: Sometimes getting it back. [Laughter.] So but, in a way, when the World Bank Group is most effective is when we use some knowledge and learning and experience that has been developed over time, increasingly from other developing countries. We do have different financial instruments that we're trying to be innovative in using, so that distinguishes us from a university or think tank.

But then even though we're not insignificant relative to the size of the markets, you know, it's still a drop in the bucket. So we try to look for things that can help develop markets, institutions, capacity. It may be carbon markets. It may be local currency bond markets. It may be microfinance markets. So part of the challenge is to see the institution as a cooperative problem solver, and so if somebody asked me today what is the bank most about, I'd say about development solutions and part of this involves political economy judgments as well as financial ones.

MR. RUBENSTEIN: Right. Well, you mentioned the structure of the World Bank, and it is often said that the World Bank is, some people say, bureaucratic. You may or may not agree with that. But the structure, as I understand it, is you have governors of the World Bank but these people also, while they're your bosses, they're your governors, they also work for you. How do you do that, when you're supposed to tell these people what to do, but they're also your bosses? How does that work?

MR. ZOELLICK: Well, it's a little different, but let me start with your point about a bureaucracy. Of course it's a bureaucracy, but one of the challenges as a public-sector executive is, you know, how do you prevent a bureaucracy from just slipping into processes and committees and least common denominators? So I spent some time in the private sector as well as the public sector. I actually find that being a public-sector executive sometimes is more challenging to be able to focus on results.

But as for the governance structure, the governors are actually at the ministerial level and those are the people that when I have to really get things done I have to really work in

capitals. But we have a board of executive directors, 25 of them, and some represent countries and many represent groups of countries. They're an on-site board and they have a staff, a total of about 300, and in many respects, this is kind of a leftover of the founding era before air travel, when you would have this group that's on site. And the best way that I can describe it is when I tell, for example, my successor how to think about it, I'd say I wouldn't get caught in the stereotype of board.

It's really three things. It's a parliament, it's a multilateral diplomacy, and it's a board, and you have to recognize that if you're going to work with it. So, for example, because people are representing countries and constituencies while we try to encourage a broader sense of fiduciary responsibility, they're as they might be in NATO or the WTO. They're representing interests, and so the challenge is to try to take these different constituencies and focus them on mutual problem solving and, frankly, part of that is not only what you do at the board. It's what you do at capitals.

MR. RUBENSTEIN: But if you were setting up the World Bank structure *de novo* and you could set it up, would you set it up this way?

MR. ZOELLICK: It started out with the International Bank for Reconstruction and Development. Basically, we've got a triple A rating, we borrow very effectively. In fact, everybody else's turmoil in the markets helps us – our borrowing costs are going down – and we do long-term loans and investments through the public sector.

In the 1950s, IFC was created and IFC does investments in the private sector and under Lars Thunell's leadership we're doing more in the equity space. And then IDA was created in the 60s, which is for the 79 poorest countries, and that is money we have continually to raise and recycle because it comes in grants or very long-term loans without credits, and then MIGA, which is political risk insurance. It really should have a holding company structure. OK. So instead, the holding company is my office, and so that would be one structural change.

MR. RUBENSTEIN: Now, you were appointed for a 5-year term by President Bush. You did an outstanding job by most people's accounts – by everybody's accounts, I believe, and I think you had a pretty good chance even to have a Democratic President reappoint you. Why did you choose not to seek reappointment?

MR. ZOELLICK: To run these institutions effectively, as I alluded to, at least my view is that you have to be both anticipating – you know, in our case, food, fuel, and financial crisis, others – and you have to be trying to innovate and trying to sort of help deal with real political problems and move fast and to become more flexible as a bureaucracy.

I've never been in a job longer than 5 years so my own mental sort of thought was registered on 5 years and, frankly, I think, while I've been pleased to make a difference in a number of areas, you know, I think just personally I feel it's time to move on. I'm not sure what the next challenge will be.

But then the other thing about this, and some people have a different view of this, is that I think it's good for institutions to have change. In other words, you know, Dr. Kim, who will come in, he'll bring in some things that I didn't do. So, obviously, I'd like to leave some things

in place that will continue, but I think change is good and healthy, although sometimes not always so easy.

MR. RUBENSTEIN: How much longer do you think the American President can still make a recommendation to the World Bank governors and have it be followed?

MR. ZOELLICK: Well, as a practical matter, remember these are done through votes and the United States has a little over 15% of the votes for the World Bank and the IMF. So as long as the U.S. and Europe have the deciding number of votes, this has been sort of the understanding of them. Now, obviously, this has been criticized in many quarters, but let me give you a slightly contrarian view and this comes from my experience both in the U.S. government but internationally. I think it's a good thing for the United States to have a role, including a leadership role, in multilateral institutions, and if you ask yourself has there ever been an American head of the IMF – has there ever been an American head of the WTO – has there ever been an American head of the UN Secretary General – has there ever been an American head of any of the regional development banks, you're going to come up with a big fat goose egg.

So, frankly, it's not so critical that it is the bank, but I do think that for the United States and the world system as a whole it's good to have Americans in some of these positions and, frankly, you know, I spend time with the Congress and this actually helps people have a sense of why these institutions and multilateralism are important.

So if you go back to my opening logic of, you know, lessons from the mid World War II and multilateralism and how to build cooperative institutions and structures, I think it's good for the United States to play a role in these institutions and good to have a sense of responsibility.

MR. RUBENSTEIN: And were you surprised that Dr. Kim, who didn't have any background in finance, was selected for this position or were you not surprised and did you have any heads-up that it was happening?

MR. ZOELLICK: Well, I work closely with Tom Donilon in the White House, and Tim Geithner, so I had some sense of the process. But also, being around Washington for a while, when people ask me a question I answer the question. I don't offer free advice on things, you know.

It was, you know, their judgment and their call, and yes, it did surprise me because I don't think most people were aware that Dr. Kim was sort of in the consideration. But, you know, I had a chance to talk to him and know him and he's, clearly, highly intelligent and highly accomplished, and I think one of the areas where actually there's an overlap is, you know, he's a scientist as well as a doctor, and going back to some of the transformation of the bank I've been trying to emphasize sort of greater evidence- and data-driven sort of work, results-based transparency, accountability, and this very much fits kind of with his sort of mindset. So there will be areas, you know, on the pure finance side or some of the diplomatic side that may be newer to him. My sense is that he'll come to that pretty quickly. There are things that he will know that I will never know.

MR. RUBENSTEIN: What was the best advice you got from some of your predecessors and what's the most important advice you could give or did give to Dr. Kim?

MR. ZOELLICK: Well, going back a little bit to your first question, you know, I've been sort of a student of institutions, U.S. and globally, and so I've had the good fortune of actually knowing all the World Bank presidents going back to Robert McNamara. Actually there's a wonderful book if anybody's interested in this. It's a couple of years old now. But Sebastian Mallaby did a book about Jim Wolfensohn's tenure called *The World's Banker* and it's a very good sense of some of the challenges of the institution.

So I think I had a sense of kind of where they were putting the focus for their era, but this is part of the challenge of change. You know, what might be a good focus at one point may not be the right one at a different point and, indeed, you want to try to build on some of the things your predecessor did. So, you know, Jim Wolfensohn did a lot to open up the bank and he opened the bank, you know, which was a group of, in a sense, economists who kind of were unused to sort of the nasty or sort of rambunctious world of civil society groups and NGOs, and that was very important for the bank. He did some very important decentralization of aspects of the bank.

But given that, I think there were some things that then needed to be kind of readjusted at periods. And so I suspect and hope that Dr. Kim will build on some of the things I've done.

MR. RUBENSTEIN: For the global economy right now, what is your biggest concern? Where do you think the most attention of the U.S. government should be spent and what worries you the most about where the global economy is going?

MR. ZOELLICK: The euro zone. I'll come back to the euro zone, but just to give you a sense of how the world has changed, in the past 5 years, two-thirds of global growth has come from developing countries. So part of the change of the nature of the World Bank is that what used to be seen as charity or good heartedness is now fundamental mutual interest and national interest, because that's where the growth is coming from, a lot of opportunities are coming from. And, frankly, you know, when I explain this to the U.S. Congress it's partly, are you interested in Afghanistan?

We're probably one of the most effective players in terms of the economic transition in Afghanistan. You know, are you interested in South Sudan? Are you interested in Indonesia? Do you think Mexico is important? So it's definitely a case of kind of what I think is a changed mutuality of interests and, increasingly, as I've alluded to, let me give you a practical example and, again, it shows building on experience. Many people here will remember the financial crises in Latin America and East Asia in the 90s. There was a big macroeconomic response led by the IMF.

The harsh lesson was that in many countries, you know, macroeconomics wasn't enough because if your nutrition programs weren't funded, if your kids couldn't go to school, you literally lost a generation. I mean, there's a, clearly, early childhood point where if kids don't get the proper nutrition, it affects their health and growth and education and productivity.

So the good story of this is, that Mexico was the first but then Brazil and we've now expanded to 40 other countries these conditional cash transfer programs where you give money that goes basically to the 15%, 20% bottom of the population under the condition that they send

their children to school and they get health check-ups. Probably done more for health of women in Mexico than anything in the history of the country. They do this for half of 1% percent of GDP. So as I kind of think about U.S. budgetary issues, I'm a fiscal conservative, but I certainly believe in investing in human capital at the bottom.

So these are some of the changes that, again, this doesn't come out of the U.S. or Europe. This is an experience to now share with others. So to come back to the euro zone, I have to be a little careful here but – [laughter] --

MR. RUBENSTEIN: Don't be too careful, but would you be happier or sadder if Greece got out of the euro, just – [laughter] – I guess you're not going to answer that one. Do you think Greece might get out of the euro?

MR. ZOELLICK: No, but here's what I'm concerned about, and this goes to the core question – those are political economy questions that only the Greeks can answer and their European colleagues. It's not simply an economic issue. But having said that, I think the core question will actually not be Greece. It's Spain and Italy, and the Spanish and Italian governments are undertaking some very difficult fiscal reforms.

They're undertaking structural reforms which are key to future growth. But they take time, and so I think the danger for Greece and what I'm worried about is that if Greece does leave, frankly, you know, I – there's going to have to be a lot of care taken in how that's done and the ripple effects and a little bit is – you know, Mark Twain once said history doesn't repeat itself but sometimes it rhymes. And so in this case, as I think about 2008 and Lehman.

I'm not trying to draw a direct analogy. But I am saying where the danger comes in is when events come and they start to affect confidence and you get illiquidity moments, and then illiquidity moments start to lead something else to tumble, whether a bank or a company or something like that. And so I've been sort of pushing a little bit more on what you need to do to position yourself to get ahead of this and then how to be ready for it. So let me be more specific on the euro zone.

One, I was one of the first people that was calling for some additional capitalization for the European Investment Bank, get more money from the European Commission's structural and cohesion funds, which are over 80 billion euro, because while the Germans are not going to have a great support of consumption, you could match some of this investment funds to help with the politics of reform in Spain and Italy as well as some investment and demand.

Having said that, I don't think it's enough and I think the key issue they're going to have to come to terms with is, if you have medium-term reforms, which Spain and Italy have, you're going to need some medium-term assurance for investors, and there are different forms of that. I and some others have said, you know, you could use the Hamiltonian approach – I don't favor euro bonds for all time because I think you lose the fiscal discipline on the states.

But if states are making reforms, you could do euro bonds one time, as Hamilton did with the states after the Revolutionary War – assumption of the debt. Or a German policy think tank said you could use euro bonds up to 60% of the GDP or, frankly, what I think is more likely to happen is, you could start to use the European monetary or the – it was the FSF – I'm just forgetting the name – the new – the fund – European Civility Mechanism, ECM. And, frankly, if they can stand back for some of the debt, well, frankly, their bonds are going to be a

form of euro bonds. OK. But my main point is those are for Europeans to decide, but I think they're going to need a funding match with the reform match, and so far that isn't there.

MR. RUBENSTEIN: Well, let's suppose you, when you leave the World Bank, if somebody came to you and said here's a billion dollars to invest – you know everything about the world economy – which two or three emerging markets would you invest that billion dollars in?

MR. ZOELLICK: I'd go to the Carlyle Group.

MR. RUBENSTEIN: Right. [Laughter.] Well, you could do worse than that. [Laughter.] But, I mean, from your perception of the emerging markets, which ones are most attractive to you as a place where you really think that they have their act together, they're growing, they have inflation under control? Are you worried about China, for example, in terms of its inflationary aspects?

MR. ZOELLICK: There are opportunities across all of these markets. I mean, you're a much more proven investor than I am. But just to give you an example, our returns on equity in sub-Saharan Africa at IFC have been, I think, 23%, 24%. Our returns overall are 18%. OK. So the point of this is sub-Saharan Africa grew 5% or 6% a year for a decade before the crisis and is now sort of back up, and I use sub-Saharan Africa not saying that it would be my ultimate investment choice but saying we're moving to a world of multiple poles of growth, OK.

And people pay attention to China or they pay attention to India, and they should. But what they also should recognize is there's lots of other individual opportunities and markets where people are doing reforms.

So, you know, I don't know how many people know about Rwanda, but the government of Rwanda is doing some very interesting things and there's probably going to be some interesting business opportunities. Just again, as a market test, IFC supports about 180 private equity funds, as you know, around the world and so we're trying to help build this as a market, as a vehicle for intermediation, not only for financing but to help with these businesses.

So my basic point is that I think the bright news is there's lots of opportunities in emerging markets but, as you know, there's risks, and there's risks you have to manage not only on the financial side but on the policy and regulatory side.

MR. RUBENSTEIN: So if President Obama were not to be reelected and Governor Romney were to be elected, it's been rumored that you might be a candidate to be Secretary of Treasury or Secretary of State. I won't ask you which you'd prefer, if either, but if Governor Romney were to call you during the campaign or after he was elected, if he's elected, and said, I'd like you to give me advice about what I can do in the United States financial situation, what would you tell him to do?

What would you tell him to do in terms of reducing the deficit, reducing the debt, reducing entitlements, increasing taxes? Do you have any prescription that you would give him that you're willing to share?

MR. ZOELLICK: Well, after that very nice opening biography where obviously I learned how to survive in Washington for 25 or 30 years...

MR. RUBENSTEIN: You're not going to answer that question.

MR. ZOELLICK: ...the way you phrased it – [laughter] – the way you phrased it makes it very tempting because I'll share an anecdote, and that is the new Foreign Minister of Australia was in Washington the past couple weeks, Bob Carr. He was a very successful Premier of New South Wales. Many people here might know him. Very pro-America and loves history, and I asked him, Bob, what's your main message. And he said that the United States is one budget deal away from restoring its global preeminence, and then he said, but also I have to point out that in my region of the world, in the Asia Pacific, there are voices that are saying the United States isn't up to this – you better listen to us. So that would be the focus of my advice and I would say --

MR. RUBENSTEIN: To get a budget deal of some kind.

MR. ZOELLICK: Well, and obviously, I have preferences for the structure of it. But let me back up a little bit and say that, you know, probably like a number of people I think that Erskine Bowles and Senator Simpson did a very good service. Now, whether I would have agreed with every jot and tittle of that is another question. For example I asked, you know, Paul Ryan, who's been a very active promoter, why didn't he sign on it and it was interesting. I thought his answer was a very principled one.

He said, look, I was most concerned about the Medicare program because I felt that even with the changes they made it wasn't sustainable. So he wanted to be committed to a premium support model. So people in this room understand, you know, how many defined benefit plans are around in the world – are you switching to defined contributions? And so that suggests to me that, you know, some key players here, if they so choose – there's a broad-based interest in a broad-based tax reform like, you know, we were on the periphery of in the mid-1980s. Everybody knows the variables for Social Security now.

And so what I think the key will be, the next President, whoever it is, I hope will face up to this issue, because this I can say as an American but who was in an international organization who spent a lot of time around the world, this is the number-one indicator of whether the United States will be a strong, innovative, productive country.

Now, the one other dimension is, we were talking about Singapore and the Deputy Prime Minister of Singapore is the Finance Minister, Tharman, is also the chair of the IMF committee – and he had a very good argument: he's saying, you know, part of the challenge now is not to just do fiscal consolidation but to do so in a way that sort of creates the right microeconomic incentives, and in my view that's how you bring private capital in.

So just to give you, again, a little example from the bank, I cannot go to a developing country now that isn't interested in public-private partnerships for infrastructure, and for a lot of the middle-income countries it's not driven by finance. It's driven by the fact that they think they'll have better projects, they'll be better maintained, they'll be better operated.

And I was just struck, as some of you might, you had a little debate in the newspaper, *The Washington Post*, over the past week because Senator Bingaman was basically saying look, you know, we don't want to finance, you know, private-sector involvement in infrastructure

and Mitch Daniels, who led the effort to take this approach in Indiana, did sort of a counter piece.

I find it interesting that in China, in Vietnam, in countries that are at least called communist, you know, we have no problem monetizing assets at the state level. But in the state of Pennsylvania they couldn't get it done. So there's some lessons here about innovation. Or in education – I find the debate in the U.S. to be kind of stultified. In developing countries everybody is quite clear is that you need to have results. You need to sort of check the investment.

Of course you have to measure results. Why else would you – you know, how else do you know what you're going to do. So the point that is, that I think in addition to kind of dealing with the fundamentals of our fiscal plan, just as I've talked about structural reform in Europe and, frankly, middle-income countries trying to get structural reforms for productivity, the United States also needs to look at those issues. So in that sense, I think there's a great opportunity for the next President.

MR. RUBENSTEIN: So you've now met heads of state from all over the world – finance ministers and so forth, foreign ministers. Who were the two or three most impressive people you've met outside the United States in the capacities or some people you say are so talented and so impressive that you just have great memories of them or you....

MR. ZOELLICK: Well, you know, it reflects the circumstances. I got to meet Deng Xiaoping in 1989. I don't know if it's because he's already a figure of history. But let me connect it to maybe an idea. I was the point person in the U.S. on German unification, negotiating the 2+4 agreement, so I worked closely with the Germans and Chancellor Kohl.

MR. RUBENSTEIN: And you speak German?

MR. ZOELLICK: [In German.] A little bit. [Laughter.] But one of the things that I was struck by about Chancellor Kohl was that he had a phrase that I have often referred to, which was actually a quote of Bismarck: the sign of a statesman is somebody who recognizes fate as she rushes past and grabs onto her cloak. And I liked that because it's partly saying that you don't control events. OK. Things happen.

And so you have to keep your eyes open for these fateful moments, but then you also have to move quickly and, in Helmut Kohl's case, you know, frankly, when he grabbed on, given his weight, he could really shift things in a significant way. [Laughter.]

But so when I think about events in Europe now and, again, I've got great respect for Chancellor Merkel, but this is at a key point here and it's going to take a little bit more than tactical maneuvering to face it. And so, you know, there's other people who I admire for certain – you know, Gorbachev was, you know, obviously, in Russia or the Soviet Union, not seen as a raving success.

But when I think of some of the moral courage he had because there were pressures to use violence and things like that, you know. So I wouldn't say that that's a successful model of governance but, you know, as an individual you take things away. But also in some of the poor countries, these are names that people would not necessarily see, you know, front and center on their screen, but people who take courageous decisions to act, to kind of mobilize public

support, particularly if it's a democratic system, you know, and try to make their country and the system better.

MR. RUBENSTEIN: Now, in your time in Washington, which is a very distinguished career and it's not over, I believe, what would you say you're most proud of having done, either at the World Bank or in other parts of your career? What is the thing you regard as your greatest accomplishment and what would you say is your greatest frustration or failure?

MR. ZOELLICK: Well, as you've alluded to, David, I've been very fortunate. I mean, and, you know, it's the serendipity of life. I had multiple challenges and opportunities. You know, because of my feelings about history I have a great respect for the course that America led throughout the Cold War with its, you know, ups and downs, and so I feel a particular privilege to have sort of been in the last rank of people kind of carrying forward that obligation at the end of the Cold War and part of that, obviously, was German unification and sort of the uniting of Europe. And so, you know, I was one of the bit players but I was able to participate in that.

You know, when you start to get at the individual level I care a lot about trade. I think trade and openness are very important part of economies and societies and microeconomic reform. So I kind of like to move into situations and then see if I can drive them forward.

So when I became Trade Representative in 2001, you know, we took an agenda that, you know, was a little bit stuck and we kind of moved forward a whole series of free trade agreements, and they're finally still passing some of the last ones that I was doing.

Then at the bank in a different respect, you know, I had a little bit of a turnaround challenge, so I made a judgment that, frankly, the people who had come to the bank were there for a committed reason to the mission and the sooner we got people focused on the mission, the better off it would be.

We'd get back away from some of the water cooler gossip or knife stabbing or whatever it was, and frankly, you know, the way that we were able to respond pretty quickly and flexibly in this financial crisis to help developing countries not only helped them but, frankly, has helped the standing of the bank.

Well, my major frustration now is the one that I alluded to, and this shows the changed nature of the bank. You probably wouldn't have expected World Bank presidents to be focusing as much on events in Europe. I mean, frankly, we helped organize the response to keep credit in Central and Eastern Europe in 2008. But I'm concerned about these effects, and I suppose the other disappointment was – losing elections is probably not my favorite task.

[Laughter.]

MR. RUBENSTEIN: So what do you do – I mean, when you have the job you have, you know, the sun never sets on problems you have to deal with, so you're always working on something. But what do you do for relaxation? Are you ever away when you can take a day off and there's not a world crisis you have to deal with?

MR. ZOELLICK: Well, I've been a runner for many years, and so that's my prime source of relaxation. But that does have a problem because I've been struggling with a couple injuries, and when you're an injured runner you get the double problem. You can't run, but you also don't get the relief. I read a lot of history.

QUESTIONS FROM THE AUDIENCE

MR. RUBENSTEIN: Well, try virtual running. Just think about running and – [laughter] – that’s what I try to do. I try to run a mile a year, cumulatively. So we have some time for a few questions from members.

QUESTIONER: How would you grade the U.S. government’s response to the economic crisis in 2008 overall?

MR. ZOELLICK: Only 2008? [Laughter.] OK. Makes it easier. Well, I think that we were on the brink of a serious collapse of the financial system, and people can criticize steps along the way, but I think people avoided that. So I think that was pretty good.

MR. RUBENSTEIN: OK. Another question?

QUESTIONER: In investment, IFI investments and activities are determined on the basis of economic need as well as sometimes based on political considerations. I say that as a former ED at the EBRD in London. So, both in terms of geographic limits and also in terms of financial instruments, how did you experience this dichotomy of political considerations and actual need?

MR. ZOELLICK: Well, if we’re doing the work of economic development effectively, – you know, we’re not going to run into any sort of political difficulties. I guess maybe two thoughts on this. One, one of the things I’ve tried to encourage at the World Bank is to recognize that we operate in a world of political economy.

I think the economics profession started to go on the wrong path when they abandoned political economy to pure economy and then econometrics. The point of this is that at the World Bank, for example, we’ve got some very talented, knowledgeable people, but what I’ve tried to say to them is our job is to help countries solve problems, so you need to understand the institutions and constraints. And so if the best textbook solution doesn’t work, you haven’t really solved the problem.

Now, we have to be careful because we’re not a political organization. But do issues of governance, do issues of social accountability, do issues of inclusive growth, do issues of transparency, affect? Of course they do. And so part of the challenge for me as an executive of the team is recognizing that we have 188 members with different political systems. How do you advance that agenda? With some that are more willing to take it on, I think you can make models of success.

This is one of the issues going on in North Africa right now. It’s why I think Tunisia is so important. It’s not a big size, but I think its success may show others a pathway, just as in the history of East Asia you saw countries look at models along the way. And this actually requires some managerial issues at the bank, because if you’re not really trained to do those issues you can see why people would shrink away from them. So it’s a question of risk management and it’s a question of knowing when to go get help. And so this is partly sort of the challenge of thinking about the institution in a broader capacity.

The other part that your question at least invokes that's kind of an inside aspect is that the bank is a cooperative and so therefore there are assumptions that lending will be somewhat balanced around the world in different resources. One of the things that I've tried to do is respect that, while at the same time having the flexibility to act more quickly in certain areas that would have greater significance. And just to give you a very practical financial aspect, you know, we got the first recapitalization of the World Bank in 22 years, which gives us a stronger position. Our equity-loan ratio is 28%.

But as I think about the things I've talked with David about and trying to think about what's going on in Europe, I have to think about how could I stretch that capital. OK. Well, you know, one of things is that, frankly, if we had a little bit more flexibility with our pricing and our maturities, I could be able to stretch that more. OK.

So those are some of the issues that for a multilateral are a little different than a pure financial company. But, you know, the other thing is I also like to find ways, particularly through the private sector. One of the things that I was most pleased we were able to do is create this asset management company, which is a subsidiary of IFC.

If you think about it, how many international multilateral institutions do you know that have subsidiaries, and we use this to channel sovereign funds' and pension funds' money — because of our equity investment record — into emerging markets and because, you know, our job really is more to expand those markets. So the more that others will then decide to invest on their own, the Carlyles and others, so much the better.

So there are ways you can push the flexibility, but it really goes to some of the questions that David was asking about the challenge in a public institution. You work in a government, but the Swiss government probably works more effectively than most — and it's easy that the internal trade-offs and the internal committees and processes and procedures can bog you down.

And so going back to even the people that I've mentioned across history, I think part of the challenge of a public executive or a leader is you can't ignore those whether it's your institution or elected democracy. But how do you work with them to keep pushing and leading towards doing things?

MR. RUBENSTEIN: Are you worried about or are you dreading or looking forward to not having security and all these kinds of things? You know, you won't probably be as — needing of security in the future, but you won't have the security and how do you think about that? You're going to be taking the shuttle and just going through the metal detectors like everybody else or — [laughter] — not a worry? One more question.

QUESTIONER: Back in your State Department role, you did an assessment of China and had some recommendations. Would you give us a quick, personal assessment, of the political trajectory in China?

MR. ZOELLICK: Well, the bank did a project called China 2030 and there is an interesting little history of this because this goes back to my predecessors at the bank. The bank has had a very good brand in China going back to Robert McNamara opening relations in 1980 against the U.S. wishes and the board, I might add, and working closely with Deng Xiaoping. And over the past 30 years, it turns out that there have been moments where, as the Chinese reassess kind of where they're going, some bank teams have played a key role in that. Among Chinese

economic thinkers, there's a 3-day seminar down the Yangtze River that is very influential. I mention this because as we approach the 30th anniversary of the bank's relations, some of the Chinese came to me and said, look, one of the issues we're discussing in China is how to avoid the middle-income trap, and this is a broader issue.

You get to a certain level of growth, and how do you maintain that? So they suggested that I suggest to their leadership an effort to bring together international talent to look at this. And the person who picked that up in particular was Li Keqiang, the man who's likely to be the next Premier, who was blessed by President Hu and Xi Jinping and others, and we were asked to work with the China reform commission and this was under the state council. It's a major think tank.

We really took as our mandate the fact that China itself has said in the 2012 5-year plan it wants to move towards greater consumption and greater domestic demand. But what does that mean in everything from the role of state-owned enterprises to land and labor and fiscal reforms and environment? So we produced a rather extensive report. I really respect the Chinese, in a country growing 10% a year for 30 years, who at least step back and say look, we suspect this model won't keep working for the future – how do we need to change it?

Again, to reference that, maybe Europe and the United States should think a little bit more in some of these terms as well. So I'm doing a little advertisement here, because much of the world focuses on the fiscal, monetary, and spending issues, and I'm a big believer in the microeconomic agenda as well. But so this report, my best sense is, is part of some momentum that will build, and after the 18th Party Congress, you know, this will partly depend on the composition of the standing committee.

You got Jeff Bader here who knows more about it than I would. But my guess would be China is not a place that does big-bang reforms. But I could see that you will start to have more pilots, sort of more provinces pushing and experimenting with things, and what I would look for is – Governor Zhou, the head of the Central Bank, pointed this out to me – is that it turns out that about every 10 years China does its own sort of policy and political look at the economic process. That would next be due by the end of 2013. So by the third plenum of the 18th Party Congress, the third meeting late in the year, there's a possibility that the leadership will have consolidated position enough to push on those topics.

Now, you referenced the politics and here I should reference more with Jeff. But I would say that part of the reason why this will still be incremental is that you've got some factions here and the factions have, clearly, been somewhat disrupted by Bo Xilai's demise, and I wouldn't be wise enough to know for sure how all that's going to balance out. I will say they will create some balance in it.

But my rough take is that, having known Xi Jinping since he came to the United States in 2006 and having seen him in Hangzhou and in Beijing and also Li Keqiang, is that I think there's at least a reasonable chance that these leaders will push more on some of these issues than you've seen in some of the recent years. But the larger story is this issue of the middle-income trap that you're going to hear about more and more.

And just to share with you a reference point that I talked about at lunch, as we did this China study somebody went back and looked at 1960 and the number of countries or economies that the World Bank had determined were middle income and there were 101. And by 2008, so almost half a century later, only 13 had made it to high income and one of those was Greece.

And so the question I feel in a lot of middle-income countries is, what are the structural reforms for them to maintain sort of productivity and growth?

If China makes some of the reforms that are outlined here, it's going to provide opportunities for service sector, cross investment. They're going to need to move up the value added chain. This might have opportunities with intellectual property. So each of these internal changes creates opportunities in the external relationship, including for the United States.

MR. RUBENSTEIN: Bob, do you see any chance the World Bank headquarters will ever be moved out of Washington?

MR. ZOELLICK: Well, under the charter it is located in the place of the larger shareholder. So if the Europeans come together in unity out of this crisis and they all have one share instead of the eight or so shares they have now, then I suppose it could move to Paris and I've missed my opportunity. I wouldn't hold my breath on that one.

MR. RUBENSTEIN: OK. Bob, I want to thank you very much for giving a great comprehensive view of the world. [Applause.] Let me give you a gift, a copy of the original map of the District of Columbia.

MR. ZOELLICK: Thank you very much. [Applause.]



Robert B. Zoellick
President of the World Bank Group

On July 1, 2007, Robert B. Zoellick became the 11th President of the World Bank Group, which works with 187 member countries.

Prior to joining the Bank, Mr. Zoellick served as Vice Chairman, International of the Goldman Sachs Group, Managing Director, and Chairman of Goldman Sachs' Board of International Advisors from 2006 to 2007. In 2005-2006, Mr. Zoellick served as the Deputy Secretary of the U.S. State Department. He was the Department's Chief Operating Officer and policy alternate for the Secretary of State, in addition to having lead policy responsibility in a number of areas.

From 2001 to January 2005, Mr. Zoellick served in the U.S. cabinet as the 13th U.S. Trade Representative. He forged an activist approach to free trade at the global, regional, and bilateral levels, while securing support for open markets with the U.S. Congress and a broad coalition of domestic constituencies. He worked with Ministers from nearly 150 economies to launch the Doha Development Agenda in the World Trade Organization (WTO) in 2001 and then to complete the framework accord for opening markets in 2004. Mr. Zoellick was instrumental in completing the accession of China and Chinese Taipei to the WTO. He also completed or substantially advanced the accessions to the WTO of Cambodia, Saudi Arabia, Viet Nam, Russia, and others.

Mr. Zoellick enacted or completed FTAs with Jordan, Chile, Singapore, Morocco, Bahrain, five countries of Central America and the Dominican Republic, and Australia, quintupling the number of countries with which the U.S. has FTAs. He also launched FTAs later completed with Peru, Colombia, and Panama, and enacted a Basic Trade Agreement with Viet Nam. Mr. Zoellick worked closely with the U.S. Congress to pass Trade Promotion Authority, as well as preferential trade arrangements with Africa, the Andean countries, Caribbean states, and all developing economies.

From 1993 to 1997, Mr. Zoellick served as an Executive Vice President of Fannie Mae, the large housing finance corporation, where he supervised the affordable housing business, as well as offices dealing with legal, regulatory, government and industry relations, and international services. From 1985 to 1993, Mr. Zoellick served with Secretary James A. Baker, III at the Treasury Department (from Deputy Assistant Secretary for Financial Institutions Policy to Counselor to the Secretary); State Department (Undersecretary of State for Economic and Agricultural Affairs as well as Counselor of the Department with Undersecretary rank); and briefly Deputy Chief of Staff at the White House and Assistant to the President. Mr. Zoellick was the lead U.S. official in the "Two-plus-Four" process of German unification in 1989-90. He was the "Sherpa" to the President for the preparation of the Economic Summits in 1991-92.

Mr. Zoellick graduated Phi Beta Kappa from Swarthmore College in 1975. He earned a J.D. *magna cum laude* from the Harvard Law School and an MPP from the Kennedy School of Government in 1981. He lived in Hong Kong on a fellowship in 1980. Mr. Zoellick has received a number of awards, including: the Knight Commanders Cross from Germany for his work on unification; the Alexander Hamilton and Distinguished Service Awards, the highest honors of the Departments of Treasury and State, respectively; the Department of Defense Medal for Distinguished Public Service; and a Doctorate of Humane Letters from St. Joseph's College in Rensselaer, Indiana.

Mr. Zoellick has also served on many nonprofit boards, among them the Council on Foreign Relations, the European Institute, the American Council on Germany, the American Institute of Contemporary German Studies, the German Marshall Fund of the U.S., the National Bureau of Asian Research, the Overseas Development Council, and the Advisory Councils of the World Wildlife Fund and the Institute of International Economics. Mr. Zoellick grew up in Naperville, Illinois.