

TRANSCRIPT
A CONVERSATION WITH.....
Friday March 14, 2008

Discussant: **The Hon. Robert B. Zoellick**, President, World Bank

Moderator: **Mr. Philip Stephens**, Associate Editor and Senior Commentator, Financial Times

PHILIP STEPHENS: Sitting up here, it feels like we're at a boxing ring without any gloves. But I'd like to assure you that this is going to be a friendly bout, as opposed to a pugilistic one.

ROBERT ZOELLICK: But you're asking the questions.

STEPHENS: But I'm asking the questions.

ZOELLICK: Seems friendly to you.

STEPHENS: But it's a friendly conversation, rather than a grilling, I think. And it's a conversation, I hope, that after a short while will be between not just the two of us, but with everyone.

Robert Zoellick, as they say, doesn't need any introducing, so I'm not going to go through his C.V. A lot of you will know him already from his position as Special Trade Representative, his position as Deputy Secretary of State. One or two people may remember him from his days in Jim Baker's Treasury, Ronald Reagan's White House, or as the key American negotiator at the two-plus-four talks for German unification.

The one thing that strikes me, looking at that C.V., is that there is something I think quite unique, and it's the way that Robert Zoellick has moved to and fro across the boundaries of geopolitics and economics. There aren't many senior public servants, I think, who are as relaxed and at ease talking about how to deal with Russia or how to deal with a crisis in the financial markets.

Now he's at the World Bank, a rather calmer place, I think, in recent months, and a place where I think one can see the beginnings, at least, of a return to a sense of mission.

We're going to talk about his role at the World Bank and what the World Bank is going to do, but I hope we'll broaden out the conversation to include such issues as climate



change, the World Trade talks, what the World Bank can do in failed and failing states, but what others can do, as well.

So as I said, I'm going to start with three or four questions to sort of set a framework, if you like, for the conversation, but then bring in people from across the audience.

And we'll start with the World Bank. And I suppose the question I have, this was an institution, and we're in Europe now -- that was really built, set up for the reconstruction of Europe. And I suppose the question one has that, more than 50 years on, and in a period where, as we sort of heard this afternoon, power is flowing a little bit from West to East, the relevance of this institution and the role of this institution can play in a completely different global landscape.

So Robert Zoellick gave a speech I think to the Washington Press Club last October talking about sustainable and fair globalization. But I wonder if you could just sort of start us off, give us the sort of clear view of where the World Bank is in this process and why it's still relevant 50 years on, if, indeed, it is.

ZOELLICK: Well, Philip, let me just start by thanking my friends at the German Marshall Fund. It's always not only an honor, but a pleasure to be here. They've run a tremendous conference.

I'm sure everybody else has the feeling that I do, that you get a great opportunity to mix with people and ideas. I'm honored to have the Javier Solana chair for this event.

And I should mention that some of you were perhaps brought under false pretences in that originally I was going to do this with my friend, Pascal Lamy, but the force of events at the WTO has kept him engaged. And this really is a good segue into your question, about how these multilateral institutions have to change with the times.

And, Philip, my true love is history. And I couldn't make a living at it, so I had to do all these other things you mentioned. So I tend to look at these institutions in a historical context, just as you stated.

And as Philip mentioned, the speech I gave focused on the World Bank's contribution to an inclusive and sustainable globalization to try to help overcome poverty, support growth and development, create individual opportunity.

But let me just explain some of the logic of those terms. In my view, inclusive had two meanings. One is, as a former trade representative and person involved with financial and capital markets, I am a strong, strong believer in the benefits of globalization, yet one can recognize the strains and stresses that it puts on the system.



And so it's my belief that inclusive in this context has two possible meanings. One is within societies how to make sure that the benefits of globalization aren't just for people at the top who are part of an international set, but are available throughout a society.

And then, second, systemically, just as the people in 1944 that put these Bretton Woods institutions together, how do we make sure that it not only includes the developed countries, the rising economic powers, but also the poorer countries, which themselves have to be disaggregated quite considerably?

Similarly, sustainable to me has two meanings. One is an environmental meaning, as we talked about and Prime Minister Rasmussen reminded in his remarks related to climate change, but another is a systemic. How do you pursue these economic aims with a political economy framework of trying to strengthen the commitment of the various players?

Now, just real briefly, what we've tried to touch on six strategic directions. One is for the poorest countries, and particularly those in Africa.

Second, breaking out a category that you mentioned, which is states that have been subject to breakdown or post-conflict states. And this is a nice linkage to your point about the formal name of the World Bank is International Bank for Reconstruction and Development. The first loan was to France. Reconstruction in '45 meant Europe and Japan.

In my view, part of the challenge of this era is how to make reconstruction fit for the challenges of the Liberias, the Afghanistans, the other states that are in various points of stress or breakdown.

The third area is the middle-income countries. And we could come back to this. It's a point where many people ask, "Well, why are you focusing on the Chinas, the Indias, the Brazils?" But if you see this systemically, as I've touched on, you'll see that you can't develop a multilateral system if you disengage from the rising economic powers, whether it be climate change or whether it be their involvement in Africa. And, indeed, there's a lot of poor people left in those countries.

The fourth is the global public goods agenda, which includes environmental issues like climate change, health issues that cross borders, sometimes the aid-for-trade connection, also financial system.

Fifth is development and opportunity in the Arab world, recognizing that you've got great diversity, but one of the things I've been encouraged about is that these -- the countries of the Arab world have greeted this idea with a recognition that they've actually felt the Bank had not really been helping them as much in the past. So whether their issues are demographics, whether it's social development, whether it's integration, there's a great opportunity there.

And the sixth and last one is a knowledge agenda. And I'll just stress this for a moment, in that many people misunderstand what the World Bank does, in part because we're called "bank." And what I try to emphasize is, when we work most effectively, we're really drawing together three elements.

One is knowledge and learning and experience about development and markets, which you constantly have to update and sort of challenge to see whether you've got it right.

Second is to make sure that the projects are bigger than themselves, that they help you develop markets and help develop institutions, whether it be carbon markets, microfinance markets, domestic bond markets, because our total business is about \$34 billion dollars a year. That's not small, but it's a drop in the bucket, unless you try to expand it.

And then the third element is what does distinguish us from the OECD or university or other institutions that bring ideas to the table, is we do have capital. And we have a private-sector arm, IFC, that is growing in importance, as well as our traditional IBRD World Bank and IDA, which helps the poorest countries, and MIGA, which does political risk insurance.

So the question is: How do you bring those three aspects together? And I think, you know, in a way, to come back to your core point, one of the challenges of this area is to take one of the grand, multilateral institutions, built after World War II, and see, how do you overhaul it and update it for challenges of a different era?

STEPHENS: OK. I'd like to take two sort of threads, if I may, out of that. The first one is, OK, the World Bank is going to be in all these places, in Africa, the failed, failing states, in China, as you say, we've got to keep these middle-income countries. And, of course, there are lots of poor people in China and India, as well, in the Arab world, as well.

But there are a lot of other institutions in these places. If you like, are we beginning to see any, if you like, proper coordination between -- if you think about Afghanistan, people say, "Look, every agency from every corner of the world is in Afghanistan. The problem is they don't talk to each other very much. They certainly don't coordinate either between themselves terribly much or with the security forces."

Now, Afghanistan is a hard case, but you get that elsewhere. So are we beginning to see these institutions beginning to work together?

Then the second bit of my question pushes on this question about the inclusion of the middle-income countries, and particularly the rising states. I mean, you said -- I think you



coined the phrase two or three years ago about China that, you know, we want China to be a responsible stakeholder.

Now, the World Bank, as you say, is there, but are we, as Americans and Europeans, actually in all the different multilateral institutions, doing enough to ensure there's something in it for these countries?

ZOELLICK: OK.

STEPHENS: Some of them still look a bit locked out.

ZOELLICK: Well, to take your first question and just to drive it home, if you take sub-Saharan Africa, on average -- we did some analysis about how many donors are participating with Sub-Saharan African countries. And each country often faces 200 to 300 donors, thousands of projects, the average size of which was \$1.5 million dollars. And as we've learned recently, a dollar doesn't go as far as it used to.

And so there is clearly a need to do some synchronization and harmonization. This is a big topic in the development community. And there is a core role for the World Bank in this, but it also requires the World Bank to change how it operates.

If you go back to that World Bank of 1945, well, it wasn't a monopolist. It was a huge, huge player in that. We now have to operate in a much more networked fashion, with private-sector players, with civil society groups, with foundations.

I see this in the European Union, where now you're getting an increasing interest in the European Union in having Europe's flag or even national flags. It's harder to raise money, this is an interesting experience for an American, when I try to make the case for multilateralism and I have to visit German Bundestag Members, because they basically want a German project.

So the bank can play this role, but we need a certain amount of resources and we need a certain intellectual agility to be able to do that interconnectivity. That is one of the big challenges.

As for your second question, it's a very good one, particularly in a transatlantic audience, because, as we are facing a U.S. election, I personally think that the issue of China didn't play as much in the 2000 and 2004 election. I think it's likely to play more in this election for a variety of reasons, including the Olympics and some other topics, and the size of the trade deficit, China's rising economic power.

And not surprisingly, given my view of China as a responsible stakeholder, I think one of the big challenges over the next 10, 15 years is how the United States, Europe and



others integrates China into this system in a way that serves their interests, but also serves the interests of the global system.

And I've been, in a sense, a cottage industry of mine doing this, whether it be Sudan or North Korea or other topics, and I just can't emphasize enough that I think China in particular is a country that is at a fascinating stage of development.

They're proud of what they've accomplished, understandably so, but they're open to ideas and interaction. Their success doesn't make them arrogant about it. It makes them open to engage.

In doing so, and this may be a little different from some European perspectives, they are as hard-headed in national interests as any country I've ever dealt with. But you can broaden their perception of national interests.

So, for example, when I was in China in December, I was talking about our work in China, which is increasingly focusing on the environmental area, but I also was trying to suggest ways we could work with them in African development.

Or, frankly, our friends in Australia, the Prime Minister, Kevin Rudd, is a good colleague of mine for many years, he was mentioning some of the anxiety in Australia with the Pacific Island development with China's role. So I suggested to the Chinese we could have some projects with China, the World Bank and Australia, which they were positive towards.

We're now starting a project with China in Ghana. We have some of the ex-im personnel from China seconded to the Bank. We're working on some of the safeguards issues.

I was in Liberia about four weeks ago. I came in on a road, which is the prime infrastructure that President Johnson-Sirleaf wants, which the World Bank financed, which the Chinese built.

Now, I'm not a Pollyanna about this. There are going to be a series of challenges people might want to get into. But I find China recognizing that it has interests in the system.

And it's, of course, thinking, how is it going to shape the system? But I think, whether it be energy security issues, whether it be the proliferation issues, whether it be a host of things, we have an opportunity to work with China.



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But, of course, China is not going to totally fit the values system that defines the Euro-Atlantic Alliance. And one of the questions in politics will be, how much room with the politics give people to work with that?

And just to further -- the same is true with India, Brazil, others.

STEPHENS: OK. Well, I'm sure we're going to come back to China, because I think it's a big story. And as you said, it seems to me, anyway, that one of the dangers in the coming U.S. election is that both sides will start bidding against each other, as it were, in terms of standing tough against China and we can end up, whoever wins the election, in a rather difficult spot. So I'm sure that's an issue we'll come back to.

But I just want to move it on and just sort of provide some of the frame for the later conversation, talk about -- I mean, today's quite a good day to talk about the -- or a bad day to talk about the international financial turbulence we're seeing, to understate it, Bear Stearns having to be rescued by JP Morgan Chase, at least for 28 days.

And, you know, we saw what happened -- as a historian, you know well -- a century ago with globalization, that first phase. And one gets the impression sometimes that, certainly in the economics and the financial markets, that globalization is beginning to run ahead or certainly the capacity for contagion is beginning to run ahead of our capacity to actually control it.

At the same time, we've got all these new savings in places like China and other rising powers. And we have these people who are now, you know, the sovereign wealth funds, buying in. I mean, are we at a sort of chaotic moment that's going to pass? Or are we at the beginning of something that really could be quite frightening?

ZOELLICK: Well, if people want, one part of my background you left out was I also worked at Goldman Sachs for a while.

STEPHENS: Goldman Sachs...

ZOELLICK: But, you know, I'm happy to share my views on monolines, commercial banks, liquidity issues like that. But in the spirit of your conversation, let's take it in the structural direction.

What's intriguing about this period of financial turmoil, different from when I was at the treasury in the '80s or what we saw in the '90s, was that if you ask people what's going on in markets today, if you talk about financial markets, people are very anxious.

Then the next question is, how will that translate to the real economy, first in the U.S.? And that's been some subject of debate, although the debate seems to be moving



more in the direction of, "Well, it's going to be at least a serious slowdown, recession, what degree."

But then when you go globally, what's fascinating about this one is, unlike the '80s and unlike the '90s, this time you have alternative poles of growth. Now, I do not mean to suggest that there's decoupling.

And while it's intriguing, if you look at bond spreads in emerging markets, they came out a little bit, then they've come back down. They really have not expanded. Just in the recent week, there's some sort of difficulty with some of them perhaps getting the full access to the market.

But what's more intriguing is the fact that -- so China may slow from 11 percent, where it's overheating, to 9.5 percent. And India is still growing at 9 percent.

Now, for the system as a whole, this is a very healthy development. We're creating additional poles of growth. And so if you also want to look longer out, if we talk a little bit about some of the growth prospects in Africa, probably many people in this audience are unaware that, between '95 and 2005, 17 countries in Sub-Saharan Africa -- and these were not mineral countries -- grew on average 5.5 percent a year. There's another eight countries that were mineral-producing countries that grew at about 9 percent a year.

There are growth opportunities. I was talking, again, with the Prime Minister, Rasmussen, at dinner, where he's doing some things with Africa, is that you've got a different leadership generation that basically wants economic integration, they want infrastructure, they want energy, they want growth.

Now, this may be a little bit farsighted, but people in 1944 and '45 were farsighted, too. We need to try to create the conditions so that Africa can also be a growth pole, along with China and India, which I think will make for a more stable system.

But then you mentioned another key point, and this shows the interconnections, the sovereign wealth funds. You know, there's a big debate in the U.S. and Europe about sovereign wealth funds and transparency, and people have raised legitimate points, I think primarily -- and I compliment Bob Kimmitt, who was here, and Secretary Paulson. They've tried to, frankly, let off some of the political steam by moving this towards greater transparency.

But look at the ironic side of this. Who's putting the equity in those institutions, those financial institutions that are going out for capital? It's the sovereign wealth funds.



Now, in part, this has a linkage back to the '90s. There are really two reasons why you have these big funds created. One is the oil rents, which are there, and the Prime Minister mentioned that.

The other is one of the lessons of the '97 financial crisis was we're not going to get caught there again. So, frankly, they've had exchange rate policies that have built up huge reserves and assets. And now they have those to deploy.

Now, let's then connect this to the third part. What does this mean for the stability of the system? Well, in one sense, this could mean it's a source of capital to deploy. If you work through the political issues, it could be healthy.

But what it also tells you is some of those exchange rate issues, going back to 1997, are one of the reasons why you have some of these trade deficits. And so now there is a lot of talk in Europe about the euro-dollar relationship. You're not going to get at the euro-dollar relationship effectively if you're not also going to get at the Asian currency relationships.

So four years ago, when I used to come to Europe and say, "You know, you guys have an interest in the dollar relationship with the renminbi, too," people said, "Why? Why? Why?" Well, now you see why.

So what it really comes to is a question not just for the World Bank, but also for the IMF and also for the WTO and for other ad hoc institutions we're going to have to create to, how do you try to synchronize what become additional poles of growth? How do you recognize that should be healthy for the system?

But also, going back to inclusive and sustainable globalization, how do you manage the politics of that?

STEPHENS: So what we've got there is connectivity can be a source of strength, as well as a source of contagion. Now, I'm going to ask one more...

ZOELLICK: Just one last point. I don't think you can escape it, OK? And so I never say never, so we saw, you know, at the start of the 20th century how globalization could be reversed. But, I mean, you're not going to reverse information technology. You're not going to reduce some of the capital funds in the world. You're not going to reduce some of the global sourcing and trade.

You can choke them off, and you can have protectionism that could reverse it, but I think the most likely scenario is you're going to have some of these developments that I mentioned. And the question is: How does the Euro-Atlantic community, which thought this was an issue of concern in 1945, expand this vision to a global one?

STEPHENS: OK, well, I think, well, certainly, there's a sort of set of issues there with, again -- and perhaps, I'm sure we will ask you about the success or otherwise of the World Trade talks, the Doha Round that you launched in that connection, because it seems to me important.

But I want to put one more issue on the table before throwing it open. And the issue I want to put on is the transatlantic relationship post-January 2009. And I want to sort of reverse the question I hear most often or the discussion I hear most often among my European colleagues, which goes along the lines of something like this.

I was at a very nice conference at the Ditchley Foundation in Oxfordshire recently where this happened, which is, "Well, look, it's pretty obvious," we Europeans say, "the next U.S. president, be it Republican, Democrat, has to do the following things: recognize Iran, start talking with Iran; start withdrawing with Iraq; get the Middle East peace process underway; sort out Afghanistan; be nicer to us Europeans; be more multilateralists; close Guantanamo."

And I could go on. You know. You've heard the list. It's a pretty long list. That President is going to be busy for a month or two. It sometimes occurs to me that, is there anything that Europeans might do to sort of build this new, more productive relationship that everyone is talking about from January 2009?

So I'd like to ask you, as an American, what should the Europeans be doing, in terms of coming up with their own suggestions about not just what the U.S. should do, but about what they might do, to tackle disorder in the world?

ZOELLICK: Well...

STEPHENS: I'm going to come back to Javier on this in a bit, as well.

ZOELLICK: My major concern is that the tenor of the debate in Europe is raising expectations, regardless of who the next President is, that overlooks a range of interests that I think both parties in the United States would pursue and also some ideologies, if you would, they would pursue, and that those heightened expectations will inevitably have to be adjusted.

And so, you know, it of course depends on the individuals and some of the context, but let me try to drive this home more. We talked about Doha. You do have protectionist traits in the United States. And some of the debate, from my perspective, has not been encouraging.



So if you have certain people elected, I think it will be very important for Europeans to emphasize how they see an open international trading market is important to the overall economic success and maybe give people some ways to climb down off some positions.

A second issue, I think, you know, if you're dealing with issues in the Middle East, I think you've got other people here on the Democratic side that could speak more competently than I can, but I don't think a Democratic administration is going to walk away from Israel. And I don't think a Democratic administration is necessarily going to start out by kicking and pushing Israel around.

Remember, I worked in Bush 41's administration. And one of the legacies of that was that we were too tough on Israel, and so that changed, and then you might argue this Bush 43 administration learned that lesson from a different perspective.

Iran policy. There's a debate about, you know, how one moves the Iranians, but this is the same point that Javier mentioned. It goes to, how concerned are you about proliferation risks and what instability it causes?

I can go through each of these topics. And China, which is one, is that -- and I think it will be very important that Europe, as the closest and most traditional partner, try to see how some of these perspectives are going to be continued in the United States. Some of those interests are not going to change.

And then the question is what European partners can do to sort of make the relationship work better. You mentioned Afghanistan. You know, there's a big debate in some European countries now about the role that they would play militarily.

This is not just a question for the United States. Take the Canadians, who've taken some serious losses and putting themselves on the line. It's very important what European countries do to stay in Afghanistan.

If you take Iran, so well, what is the answer? Is it being nice to the Iranians? Is it just talking to the Iranians? And if you have Iranian leadership that denies the holocaust and threatens Israel, do you just kind of turn a blind eye to that?

These are not easy solutions or easy problems to solve. But I think, you know, in some of them, if Europe comes to lecture, I guess I would just flip it. From my experience, there's a time, as you mentioned, in German unification, where the U.S. had to lead.

But by and large, if you try to have some discussions with your colleagues, try to figure out where you have your overall goals, but you can compromise on some of the means along the way, you're likely to be more effective as a multilateral partner.



STEPHENS: OK, well, thank you. Well, that was -- I think thank you very much for that, incredibly sort of rich array of issues and answers and perspectives and analysis.

So what I'd like to do now is to open it up. I'd just ask those who'd like to speak or ask questions two things, one, to say who you are and, two, to keep it relatively brief so we can get as many people as possible in.

So just here.

STEVE CLEMONS: I'm Steve Clemons from the New America Foundation in Washington. One of your former Bush administration colleagues, Grant Aldonas, recently said, "If America really cared about development, it would have negotiated for different things."

And I'm interested in that sort of framing. I don't know what the different things were that he would be referring to, but I'm interested now in your role as sort of a steward of the development country problem, as it were, and having been a trade official, and one of the economic minds of the administration. Do you think there is a different set of things that developed countries need to be negotiating for, if they really cared about developing nation problems, sort of road maps?

ZOELLICK: I question the premise, although I'll come to a couple of variations where I could see it. And part of it is substantively, but part of it is also the political economy.

On the substantive side, look, there's a deal on the table that could have a historic cut in farm subsidies. And there is a deal on the table that could open agriculture markets. And let's remember: There's a lot of south-south trade, too, and there's a lot of opportunities here for developing countries to take advantage of opening markets in other developing countries.

One of the parts that was most frustrating in the manufacturing goods agenda was that I always believe that, if you look at this systemically over the next 10 or 15 years, who do we really think are going to be the big beneficiaries of lower manufacturing tariffs? I've got to suspect it might actually be some of the rising developing countries.

So from a substantive ground -- and then, of course, one of the wonderful things about trade negotiations is, if you give away too much, you actually help your economy. It's the dynamic that by liberalizing you're giving something away when you're doing something good. So if you can open services markets, frankly, one of the things that I saw in the trade position but also now, you have a more efficient financial services market, you have a more efficient transportation market, you have better trade facilitation. That's all to the good.



So, in general, I don't have that view, and indeed most of our bilateral trade agenda was really designed as much to develop and support reformers as it was for pure trade grounds.

The political economy point is also important, though, which is that we have constitutional systems, we have electorates. When I had to make compromises, sometimes my freed trade friends would say, aren't you a free trader? And I said, yes, I am, but I also believe in the Constitution, and the Constitution gives authority to the people elected in Congress and I've got to put together, just as people do in Europe, various approaches to do that.

So the key thing in understanding the global trade negotiation that a lot of people do not understand, it's not a question of holding your cards close instead of when you trade them and so on and so forth. It's a big, huge problem-solving exercise. It's a question of how you can liberalize as much as possible but deal with people's political needs.

A little cross reference here, and it's a point Pascal would make if he were here. For everybody who thinks that climate change is such an easy treaty to get done, just keep in mind, we've known the economics of trade for a good 40 or 50 years. Everybody knows what's in their economic interest. It's still politically difficult to get it done.

As Pascal says, if you don't get a Doha deal done, it isn't the most encouraging thing in terms of the prospect for a climate change arrangement. And for people who think that's easy, we talked about China. Keep in mind, if you're trying to give support for the developing country, I don't know how easy you think it'll be in the U.S. when you explain you're giving billions of dollars to China, but I think that might actually be a little difficult.

Now, then let's come to the one point where I do think Grant may have some merit. The area that people have never really touched on is sort of the -- what's called 'Mode 4' in services, some of the movement of people. And that obviously gets to the highly politically sensitive topic of immigration, which is sensitive in Europe, sensitive in the United States.

Our Congress never forgave one of my predecessors, Mickey Kantor, for even doing a modest change in terms of sort of promising certain visas for workers to come in. You could certainly make the case from a development perspective, having additional movement of people would be beneficial in development terms. Politically, it's a very, very tough issue to move forward.

So that's how I guess see the prospects.

STEPHENS: OK.

Down here.

MATTHEW SPENCE: Thanks. My name's Matt Spence. I'm with the Truman National Security Project. One thing that's striking about reading about the World Bank's work, recently and increasingly so is the emphasis on good governance, eliminating corruption and the rule of law. And looking at the substantive things the World Bank is promoting on those different fronts, it looks a lot like some of the same principles that one talks about when they talk about democracy promotion.

And I guess my question is, is there a difference from the World Bank's good governance and rule of law agenda and democracy promotion? And is the World Bank in the business of promoting democracy?

ZOELLICK: Under our charter articles, we are not to be a political institution. And we have 24 board members that represent 180 different constituencies. A number of them are not democracies, and I'll have to say, a number of those non-democracies have grown relatively well.

But I think, again, this goes to the nature of multilateral institutions. Where do you find the common ground that moves in the direction of – obviously, I personally believe democracy's a good thing and human rights are important and a political open system's important. But I'm not necessarily going to be able to win that debate while trying to do a job day by day with all my members.

So, where one can move forward is the recognition of the role of a rule of law, a role of transparency, a role of inclusive development processes, which means bringing the public in. You can drive down in considerable detail on issues such as how, when you have development programs, you can use tools, such as posting budgets for schools or health care centers on the door of the institution so that the local community can say, oh, they were supposed to buy 500 textbooks, or they were supposed to do this, this or this. We never saw it. So it helps build that inclusive process. And I guess my view of it is there's a tremendous amount we can do still in that area.

Another one that's related, and this just shows how the lines are interconnecting, is that we have supported parliamentary systems, which is both a check and a balance and encouraging their process with development assistance. And what we're trying to do is move increasingly in the context of countries that want that support.

And this is another core point. I mean, one of the lessons of development is it has to be driven by the people in the country. You have to have national ownership. So if countries come to us and talk about some of these possibilities, we've created an inter-parliamentary network that the German Marshall Fund is actually helping us support, to help

– when I was in Liberia or Mauritania, which just became a democracy, I meet with the parliamentarians.

Jim Kolbe, who's next to you, would get a kick out of this one. I was meeting with a group of parliamentarians and they were saying, we have a hard time getting the government to allocate some of our money for our legislature. And I said, you pass a budget? Maybe you would have a little say where the money goes.

And they said, they don't kind of give us time on stuff. And I said, do you ever have hearings? And I thought, my God, I'm creating a nightmare. I used to have to do this with Jim all the time.

But I think there's a tremendous realm in that area without having to take on the articles and the charter of whether it's democracy promotion.

STEPHENS: OK, now there are a lot of people...

ZOELLICK: Just to expand one thing. I know you want to, but just – if you think about this with the Middle East, but this is really relevant to some of the discussions that you've had in Euro-Atlantic circles about foreign policy. Take the Middle East. There are different ways, if you looked at the history of East Asia. I was in Hong Kong in 1980 as a Lu (ph) scholar. I had Chinese students.

I used to talk about democracy. Everybody was all excited about the rise of Deng Xiaoping. My Chinese students said, democracy exists in Japan in some perverted form. It's not an East Asian institution. And one of the few benefits of age is you look over the course of what is now 28 years and you sort of see democracy in South Korea, democracy in Indonesia, democracy struggling in various of the ASEAN countries, interesting elections in Malaysia, by the way, democracy in Taiwan.

It can happen if you create more open societies. So I'm not a determinist on this, but I think part of what his questions are is how do you create an international system that increases the odds, the likelihood, if you think, as I do, in portfolio terms, the probabilities of things moving towards a more open system, a more tolerant system, a more integrated system. And, partly, how do you use these international institutions to do it without necessarily always having to take on the shibboleth that will just leave you in debates for three years.

STEPHENS: Thank you.

Now, I've got lots of people who want to ask questions, so I'm going to make life more difficult for Bob, because I'm going to take two or three questions...



ZOELLICK: I can only take two. I'm tired. I can't remember three.

STEPHENS: OK, so we've got the gentleman over here, and then one here, and then one here.

ZOELLICK: That's three. I can count. I used to be in finance.

STEPHENS: It keeps it neat, because I'm going to move to this side afterwards, so let's keep it neat.

DOREL SANDOR: I have a very simple question. My name is Dorel Sandor. I'm a political risk analyst. It's about sustainable globalization. The question is, is the globalization systemic?

ZOELLICK: Systemic?

SANDOR: I'm afraid not.

STEPHENS: OK, we're going to take this one, here.

DANIEL DREZNER: Hi. Daniel Drezner, the Fletcher School at Tufts University in Boston. When you were USTR, Mr. Zoellick, you promoted the idea of competitive liberalization, the idea of the U.S. signing multiple trade treaties as a way in theory to sort of spur the WTO on. I'm wondering now, as the head of the World Bank, would you like to see a similar kind of proliferation of other development agencies, multilateral agencies?

China in particular is starting to do this. How do you feel, as the head of the World Bank, about the sort of competitive development kind of policy?

ANTON LA GUARDIA: I'll make this short. Anton La Guardia, from The Economist. Philip mentioned the hard case of Afghanistan, and you said that one of the challenges of development is how do you integrate the work of multiple multilateral agencies in a place like Afghanistan. I was wondering whether you can tell us what you think, having said that's a challenge, what you think the solution is.

ZOELLICK: OK, on the systemic issue, I think it's up to the world to decide the nature of the system. I think there are globalization forces. There's the ability to move information, to move capital. There are business developments in the private sector with global sourcing. And some of these questions go to what aspects in both private and public sector will define that system.

So let's take that to the second part, which is the competitive nature of development. I think competition is a good thing. And so, look, I've hired as the first chief

economist of the World Bank a Chinese economist who also studied at the University of Chicago. And so I think there are things to learn from other development experiences, and it won't be shocking, given some of my background. I think one has to – while there are certain core principles that ideological rigidity in some of these fields tends to box you in, and so you have to look at it pragmatically and understand individual circumstances of countries.

And I think people can learn from that. And it also goes then to the point that in working with China on Africa, I think that there are not only interests, but there's experiences that the Chinese can share that can be of mutual benefit.

Now, having said that, just as in the trade area, you can have a process that sort of splits everything apart or you could create blocs of different sorts. I think you need to have enough cohesion at the network to draw it together. And that's why – it was one of the arguments I made last year, when we were trying to raise money for IDA, which is the International Development Assistance, which is our grants and concessionary loans for the 80 poorest countries. And we were eventually, with the help of many European countries, Britain being foremost, raised \$41.6 billion, including from our own resources.

And part of the point was, going back to your question and Philip's, I said for us to be the nucleus, for us to be the conductor and work with countries with national programs, we've got to have enough skin in the game.

And so I think in a sense it goes back the systemic question. You can have different players, you can have networks. You need to have some institutions that can be the catalyst or, in American foreign policy parlance, the leader in the system.

And then, for Afghanistan, I'm spending a reasonable amount of time trying to think about this myself and learn exactly the strengths and weaknesses. We're quite big, in the World Bank, in Afghanistan, and we have a very good role with President Karzai and we try to work with the security teams and others.

I think my preliminary sense is there's a couple of things. One, in general, one of the lessons with all states coming out of conflict, in conflict, post conflict, is security has to be first. So how can the economic development program support the security effort?

This may seem obvious, but if you take a pure economic logic, you might say the returns are higher in activity X, Y or Z, but if you take the security logic, maybe it's demobilization, maybe it's building support in certain parts of the country. That has to be a core logic.

A second concern I have is just in the nature of the Afghan political system whether there's enough coherence coming out of Kabul to play its role throughout the

country. And this is critical because one of the development lessons going back to national ownership – and this is the tension you see in the debate going on right now. People are eager to see the development and they're saying, well, we're not certain the government in Kabul can do it, but if you don't have the government in Kabul play a role, it will never develop that role.

And so what's the balance between some of the short-term efforts in different areas and perhaps undermining the government that over the long term you have to create? So I guess what it leads me to is the view that the international system has to try to work with the Afghan government to try to create additional coherence, so this idea as a number one person from the U.N. is probably a good idea, if that person sees their role as being a close partner with President Karzai.

But, ultimately, you can only do so much for countries. You're going to have to have countries decide that they're going to make it on their own. And so we can support it, others can support it. And I think this is in a sense one of the other lessons of Afghanistan that I hope a European audience will listen closely to. This is a country that has been very decentralized, fragmented, pulverized, I mean, in tremendous difficulty. And so it's going to take a while.

And this goes to one of the challenges for U.S. and Europe. People get impatient. One or two years, they want it done. This is not going to be done in one or two years.

STEPHENS: OK, you can count. I can't, because I've got three on this side, but it's four. So I'm going to take one here, and then I'm going to move over to this side.

JOHANNES LINN: Thank you. I'm Johannes Linn from Brookings. You mentioned Justin Lin, your Chinese Chief Economist coming in. You appointed a managing director, a woman from Africa. I think these are very important and inclusive steps, but from a distance, if you wish, sitting now up at Brookings, you sort of wonder how long the U.S. and Europeans can and should be selecting the President of the World Bank and the Managing Director of the IMF. Do you think that's a sort of prerogative that the Europeans and the U.S. should actually maintain? Or would it be not in their interest for effective and legitimate institutions to actually give it up sooner, rather than later?

STEPHENS: Yes, why don't you answer that one, and then we'll come to some more.

ZOELLICK: OK, going to take this in two parts. The first part is that is a legitimate question for the sovereign states that are the board members to select. In my view, throughout, this has been I was asked to undertake this job. I decided to do it. I'm trying to do the best I can across the full range of activities.

But let me give you what might seem a slightly counterintuitive point. It may very well be the case that it should move beyond Americans and Europeans. But going back to this issue of American isolationism, which I'm sometimes concerned about, people have to think very carefully about whether they really want what they ask for. Because if you start to detach the U.S. further from those institutions, it will have an effect.

Secondly, and again, I'm too close to this to see, I'll just tell you as a practical matter, the fact that I'm an American and that I've done the things I have, give me a lot of reach in places that other people wouldn't have. And so I don't know how to factor that in, how much it's individual, how much it's sort of American.

But, certainly, the core issue that you raise is a very critical one, and it picks up what Philip was saying. There's a sense of voice and representation in these institutions, which partly you see in the debate about voting shares. Frankly, the shares or votes are quite small in this. But, in reality, it's symbolically quite important. I've been trying to address that through other means, including appointments.

I will say for a European audience, it's probably useful to know, I have 24 board members. Eight of them are from Europe, one from Japan, one from the United States, so you count.

STEPHENS: OK. It occurred to me, actually, that the IMF appointment this year might have been one of those occasions when Europe could have taken a lead and thrown the IMF appointment open, but we decided not to.

But, anyway, we're going to take a couple of questions. This side? No? OK, well, there's him there, and then this one here.

CHARLES GRANT: Mine follows on directly from the previous one. Charles Grant from the Centre for European Reform. If China is to be a responsible global stakeholder, it has to feel encouraged to take part in international institutions. We often criticize the Chinese for not being more involved. In U.N. reform, they released it on the sidelines. They wanted to keep Japan off the UNSC. Otherwise, they didn't care. WTO, they'd rather stay on the sidelines of the current Doha round. And I have conversations with Chinese officials and scholars, and I've criticized them for not being more actively involved in global institutions.

But they say, but they're your institutions. They're run by the West for the benefit of the West. And then they always bring up the question of the IMF and the World Bank. So unless the next time that your job or Strauss-Kahn's job comes open for appointment, unless there's a competition that allows people who aren't from Europe or America to take these jobs, I'm very worried that China and other powers, and the Indians, too, will simply cease to take these institutions seriously.

And if we don't get them engaged in the global institutions, then we can't have an effective multilateral system. The institutions must reflect the shift of economic power to the East, however good your argument is, Bob, that if you want to keep the U.S. engaged, you have to give them the top jobs.

STEPHENS: OK, and this one here.

ZOELLICK: Aren't you supposed to say, what do you think, to make it a question?

STEPHENS: I'm going to take this question here, and you could think of a riposte.

KAREL LANOO: I'm Lanoo from CEPS, Centre for European Policy Studies Mr. Zoellick, when you came to power, when you were USTR and then Mandelson became Trade Commissioner, you had a remarkable kind of role in the "Financial Times" in fact they say about the phone conversations with Mandelson.

I understood from that that you said to Europe, you criticized Europe for not being sufficiently constructive in the international trade negotiations. Is this still your point of view?

ZOELLICK: Do I do these two?

STEPHENS: Yes.

ZOELLICK: OK, let me take yours, and then I'll come back to Charles. Actually, that wasn't my criticism with him. It was on the Boeing-Airbus issue and it went...

STEPHENS: Wasn't it about who put the phone down first?

ZOELLICK: That was the derivative of the problem. So that wasn't the question, but I'll just say this. I'm very pleased that the United States decided to have a competitive tanker bid and actually worked with an Airbus and U.S. firm. I hope that will happen someday in Europe.

But, more particularly, on the global negotiations, you may be interested to know, Peter and I have actually exchanged e-mails in recent days, because going back to my answer to the question about seeing this as a joint problem-solving exercise, it is absolutely critical that the major economies, including some of the major developing economies, step out of the narrow negotiating model and try to create a sense that they're willing to sacrifice for the common good and that we all benefit from the system.



And, frankly, I think Peter's been doing a pretty good job of going around the world, touching bases. He's got a little problem on his flanks from France, and that probably wasn't easy for him, but it was also good for him to show that he would sort of step out of some European positions to be able to move the negotiation forward.

So I honestly think the Doha round is at a critical point. That's why Pascal isn't here. I'm going to see him on Sunday. I'll hear more particularly. This really is, in my view, the make-or-break point. And it's going to require the U.S., Europe, Brazil, India – to a degree it'd be nice, China, South Africa and others – start to create the sense that there's a whole greater than the sum of the parts. And I think that's the obligation of all the negotiators and frankly I think Peter's been doing pretty well with that.

Coming back to Charles question, this is a difference you and I have had on other occasions, sometimes. I think it's important to distinguish debating points from people and substantive policy points.

And I believe there's a tremendous amount one can do with China, Brazil and India to make them feel influential and stakeholders and that they will have shared benefits, but also obligations. And just to draw this out a little bit that China for the first time contributed to IDA. That wasn't an accident, and, by the way, going back to your question, I don't think it was totally divorced from me.

And part of this was going to the fact where I would make the point to the Chinese that unlike some of the voices you hear elsewhere, I think that their investment in Africa and elsewhere is understandable. I think it can be beneficial, but I try to explain to them why they don't want to build up debt when debt has been forgiven, why they want to be paid back, why they don't want to antagonize Africans.

And you can work a lot of this in terms of interest. Climate change, you're not going to be able to deal with climate change without being able to bring along these major developing countries. About three-quarters of our business now in China is environmentally related. So I've got some voices that are saying, why are you doing any business with China? Well, do you want China to be part of global climate change and environmental issues?

Similarly, with our work with India and Brazil. So I don't really think these things are all or nothing, or it always has to be this symbolic aspect. And I'll just tell you, there was a lot of positive response in China to having the chief economist, so it's a balance of the system.

You can focus on one issue sometimes and that's what debating societies do. I don't think that's the way the world really decides these things. It's what you get across the balance. But I do think you're right about saying there's a strong interest in paying attention



to China, or Brazil or India. But, also, one needs to hold them to some responsibility, too, in these areas.

STEPHENS: Now I'm going to use my prerogative to perhaps, if I may, bring Javier Solana into this conversation, having not warned him. But the question I would like to put to him is one I put to Bob earlier, and it's about – I mean, what Bob's been talking about and I think most interestingly is a lot of these problems, for all of their really profound complexity, you could talk about them, negotiate about them and, if you're persistent enough, perhaps come to agreement.

So I want to put the same question I put to Bob at the beginning about Europe and the next U.S. president. I want to put to him the question, are we, as Europeans, going to be going to Washington in January 2009, saying, this, Mr. or Mrs. President is what we want you to do for the next six months, four years? Or are we as Europeans going to be going along, saying these are the things that we think really are important and this is the contribution that we think we can make to a joint project to tackle them?

SOLANA: Thank you very much. It's not an easy question. I'll try to answer. I don't think that we will agree that the position of the European Union is to go to the United States, or the new President of the United States and put the list that you have said of 11 issues or 20 issues. I don't think that is the position of the European Union or the European governments in the institutions of the European Union.

I think we have to say that you have to change, we have to change. And we have to find a way in which we can work together.

Now, I have chosen two issues in which no doubt we can work together. One is climate change, and it's very, very important, because we are leading in a way, and to find a way in which we can cooperate on that direction. And the other is nonproliferation or proliferation and, in particular, disarmament.

I think that really we have an opportunity to change this world as far as armament is concerned. Very, very important. Now, apart from that, I think we have to put on the table many things.

One of the things I want to say and I talked to Bob on many occasions about that is crisis management in real terms. He has said that, for instance, Afghanistan and other places, we are not doing enough. I think we are doing a lot.

And we take a little bit our memory back, not very many years ago. Very few years ago it was inconceivable what is happening today, and today we have to agree on that. Now, I think that the United States has to agree also that it has to be possible for the



European Union to develop these capacities, these capabilities, civilian for crisis management and military.

And I think at this point in time this is still very difficult for the United States, difficult for member states, and I'm looking to the U.K. in particular. And I think we have to open that way of developing also our capabilities and try to do it in a manner that we don't damage any other institution, but at the same time trying to cooperate together.

Now, let me ask you a question to Bob, which is personal.

Bob, you have been...

[below portion has not been checked against delivery]

ZOELLICK: I was enjoying listening to you.

SOLANA: And I'm going to enjoy listening to you.

You have been in very many important jobs, probably one of the most - how would I say - you have been in so many (inaudible) you're qualified.

You have been in the treasury and you know how to from the treasury, you can put a problem in front of you and resolve it in days. You have been in the other places where you have been able to administration, or fiscal administration, or (inaudible) administration to solve problems immediately.

Now you're in the World Bank and (inaudible) the problems cannot be solved immediately.

How do you adapt to that? And how do you trust (inaudible) to others that don't have the experience that some problems cannot be resolved in 24 hours? And that is (inaudible), which is a lot of as trouble persevered.

Now, let's look at Europe. You were in the four plus two meetings (inaudible) of Germany. You (inaudible) that in one day, one day in a minute really when you entered into a minute you said two plus four from today. You did.

Now, look at Europe in the (inaudible) for instance. How many years to stabilize? How do we do it in a relaxed manner? How do we do it without having a diplomatic check list every moment? You solved the problem.

And that is not the case. How did you do it? How do we do it?



(UNKNOWN): How do we make the intractable practical?

ZOELLICK: It's an excellent question. I guess when I was in the U.S. government, I didn't feel we quite solved problems at the snap of my fingers either. But I appreciate how it might have looked. But I think it's applicable for the United States, for Europe, or the World Bank.

And let me just explain a point that I made in public into our own staff at the World Bank, very devoted people, very committed. And I keep reminding them, I said, look, these are extremely difficult problems. If people knew how to overcome poverty and insured development, they would have done it long ago. It's not a surprise that you have trial and error and you have mistakes and you have to learn from different situations.

So coming from that, I think the first point is, it's important for political leaders to sketch a vision, and direction, and where they want to move the system as a whole. In here, to give credit for Europeans where credit is due, it's been a - that vision has been there. It's evolved with some seismic events like the end of the Cold War. And in a big picture sense, it's moved pretty well if you think about the transmission over 50 years.

The second point, however, is to be analytically rigorous and honest, whether it's development or whether it's European capabilities about what works, what doesn't work, and particularly - and I'll just say in the development area - I constantly remind the World Bank staff that in some ways, the hardest thing in the world to do for people who are really devoted, really pour their heart out, often working in very difficult conditions, to recognize maybe it really didn't work.

You know, people have a tendency to rationalize. They have a tendency to say, well, it kind of did and we put this forward and so on and so forth. And I emphasize that honesty and integrity are critical for serving our clients, for serving the poor people of the world in trying to measure our results and effectiveness.

Well, I'll make an analogy to Europe but also it applies to the United States. You know as well as I do, sometimes people just feel that communiqués, get in the right language, being able to state the policy, is the same as the solution. And I think sometimes those are critical steps to build the political support. You just hinted at the fact that I tend to agree with you that I think for Europe to play a larger role in security, it probably has to act more as a European body within institutions, with the military and civil. So that's a process step in that fashion.

But at the same time, you have to be honest. If one is failing and not developing something, and unable to deliver, you have to raise that up in the overall debate.



So I think that ultimately, you know, this does come back to the nature of political and institutional leadership for people to be willing to put these things out and eventually persuade publics.

Now, another dimension that you touch on and this is one where you asked me how I try to do some of this, look, I've been fortunate I've been able to work in lots of countries over the world. I have an interest in history so I have some feel for different things.

Where you can, it's important to have some appreciation of different cultural and historical perspectives of this. It doesn't violate your point about I do believe there are some universal values and aspirations one needs to point to. But I think one of the challenges going back to your point about the American and European dialog, Americans - this is a terrible generalization but - they tend to be impatient. They tend to want to solve the problem. That's very good because American officials of both parties tend to be people who feel that ultimately, it ends up on their desk if something doesn't work. So if Iran gets nuclear weapons, a lot of people might talk about it in conferences but the U.S. will feel kind of ultimately, well, if something goes wrong, then it falls to us.

But sometimes that impatience leads people to not appreciate some of these cultural and historical limitations. And particularly, you know, Europe is still a place where history is much richer and deeper. So I've had this discussion with American colleagues on some of the use of force issues.

You know, to be hones, when you talk about use of force in Germany, it's still a very rich and deep thing that this was a very terrible bad thing and you just want to stay as far away from it as you can.

Americans tend not to see that aspect. So it's part of the European-American dialog, but frankly, one needs to broaden it to China and others. You're more effective as a coalition leader, as an institution builder in bringing other people, if you listen a little bit.

But then, at the same time, you have to be careful that it doesn't slip into that second trap that I mentioned of being a rationalization for inaction. But you know, that's where the art - it's an art, not a science.

(UNKNOWN): (Inaudible) a gentleman I've heard. I mean, (inaudible) press you a little bit on one of the things that (inaudible). We've got the MPT conference in s010. Now, do you think the next U.S. administration - again, regardless of political color or personality - might take disarmament seriously in a way that hitherto hasn't been. We've seen various sort of people, including Henry Kissinger and others, talk about, you know, a sort of non-nuclear world as a very long-term goal. But is this an issue you think that's now on the U.S. agenda in a way that it hasn't been?



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ZOELLICK: Javier and I talked about this a little bit at dinner. I believe it's very good that you have a bi-partisan mix of experienced people. George Schultz, I know, is one of them, who are trying to press one element of that, which is, does the United State need the level of nuclear weapons that it has?

As you may recall, this is one of the issues that President Bush 43 discussed and he made some cuts. There's a substantial body of opinion, bi-partisan, that you could reduce this much, much further.

A second aspect that relates to this is one needs to keep in mind - and this is part of trans-Atlantic history - is that the original focus on flexible response and other nuclear doctrines was based on a conventional asymmetry, and hence, one of the big game changers in '89 was President Bush 41's proposal for the CFE agreement that neutralized and made it equal and removed some of the reasons for some of the short-range nuclear missiles after you had the double zero.

You might ask yourself, in a world where the United States conventional forces look pretty superior, do you really want to do anything that could give people a logic or justification for additional nuclear forces?

Now, the counterpoint is - and it's a responsible one, a very responsible one - is that often the people that will develop these aren't doing it based on that. They're doing based on other interests.

But where I think Javier was planting some very good seeds is that now and then, just as I use the example of the CFE agreement in '89 had the United States coming out with the bold proposal. Now and then a bold proposal by a leading country, can start to change the face of the game, OK? And a lot of what I've seen in international negotiations is the face of the issue.

And let's just take this to climate change. You know, some people might have a hard time understanding that I think you'll get further in the United States with these self-imposed limits than some of the international ones because if the face of the game in the United States is climate change is happening. We have to get at this issue. We have a responsibility. We should be leaders. Let's take this path.

That elicits one political response.

If it is, what should we give up versus the Germans who count from 1991 or '92 when East Germany was a smoke stack and now it isn't, and what should we do versus China or India, you have a different face of the game, OK?

And so part of the challenge for the climate change negotiators is how do you take into that context these different sort of domestic politics in face of the issue? And I think what Javier in his usual sort of I think, sort of adroit but sort of modest diplomatic way, was trying to say is, in terms of nuclear proliferation, if you're seriously worried about it as an issue, do you need to think about some ways of changing it?

And another one that's out there is, you know, what should be your (inaudible) doctrine? OK? So look, we started, we changed nuclear doctrine as part of NATO in terms of the German unification. So we went from (inaudible) to weapon of last resort, OK? Well, maybe there, and you know, what's a challenge on this - and people shouldn't underestimate - is any one of these doctrines and policies start to develop a lot of barricades (ph) around them. They're very hard to change.

So look, President Bush 41, remember, removed tactical nuclear weapons out from everywhere, OK? It was a unilateral move but was very important in effecting these policies.

I do think it's important for the U.S. to try to think about some of these with European partners and others. But I don't underestimate the difficulty of shaking them up. But to be honest, that's one of things that really makes, in my view, the difference between kind of managing incrementally, and trying to reshape the chessboard.

And to be honest, if you're from a leading country, what's fun is but not easy, is kind of breaking through some of the chivallets (ph).

(UNKNOWN): OK.

I'm going to take one more question because it's getting late and we've taken a lot of your wisdom already. But I'll just take this last question.

(UNKNOWN): Thank you. I'm Ralph Hickson (ph) with (inaudible) Foundation.

I want to raise just another simple question for freeland oracle (ph). Given the fact that main threats for the global economy are emerging from the financial markets, being widely decoupled from the economy and inventing every new, risky financial instruments, which even the inventors don't really understand and exceeding by far the risk management capacities of the bank system, do you think we need more strict replementation (ph) of the financial markets? And should we spend a little bit more attention to strengthening the super-national financial institutions?

ZOELLICK: Well, first, I just want to note a slight difference of one of your points. I don't believe they're decoupled. And in fact, I think you're going to see this affect but I think that's an insularly point to what you mentioned.



I think that there's now a debate about the appropriate role of supervision and regulation, financial tie-ins as an active forum about this because it points out that financial institutions do have a different role in economies and that's led to different theories about sort of banking and financial markets.

The reality is that the institutions that got in this trouble will pay a price. Some of them won't be around. And a lot of people will have lost jobs. People may debate what that says about compensation systems. That's a set of another question.

I do think that what's coming out of this and I think Secretary Paulson's produced some good things. There's been other ideas in Europe about supervising at different levels. Let's take, for example, the starting point of some of the sub-prime mortgage market. It would certainly appear to me that financial regulators and supervisors should have been more active in trying to limit some of these products.

Having said that, just recognize, those products were also getting more people into homes, too, and so it's not so easy to always say, you know, what would be your requirement? Five percent down? Ten percent down? Fifteen percent down? You know, how do you want to regulate these things?

But I think, you know, in a sense what public policy officials are paid to do is make judgments on some of these things and I think it went too far in that direction.

But I would be careful about a new surge of regulation because I also recall from my experience how regulation led the financial crisis. If you look at the whole S&L financial crisis, it was based on the fundamental logic of basically trying to regulate the consumer savings rate versus what people would give on loans. You had a duration mismatch. Then people opened up the lending authority at S&Ls and they didn't supervise it.

So I don't think - I guess what I'm saying is - I don't think isn't subject to an easy answer saying more regulation or more supervision. It do think that the system will respond to it with a combination of losses and wiping some people out and additional supervision.

But I guess I'd be wary of - there are a lot of good things that happen with financial innovation and let me close with this because it's a relevant way to connect it to the bank.

A lot of what we're doing at the bank now is applying some of these financial innovations to help people to manage risk. So a week ago, we did some additional student loan programs for Columbia where we got authority to have longer maturities of some of our loans so that they could match the asset and liability duration of the student loans with the loans to us.



Secondly, we're increasingly trying to borrow in their currencies. Now, in the case of Columbia, their laws didn't allow us to do that but we used derivatives. So we took away the foreign exchange risk.

We work with countries on drought insurance. WE put together re-insurance markets for Caribbean countries so that they, if they get clobbered by hurricanes, can get some payments.

Mexico has looked at this and said, we want to try to do the same thing with earthquakes. And there are things we can do with the capital markets as opposed to trying to use the insurance markets. We came up with something called the advance market commitment for vaccines, which said, look, the pharmaceutical companies don't have the same economic incentive to invest in certain tropical disease vaccines but we will make a commitment in advance with various donors to buy certain amounts of product if you can figure out how to cure - in this case, it was a set of advance bacterial disease.

And so we're using financials to try to help poor people. And this can be a tremendous benefit so I guess I wouldn't. At the same time, I personally think that financial markets are going to go through a difficult period and some additional lessons and supervision will be appropriate - I wouldn't go so far as to try to stop or slow down the world of innovation and financial markets. I don't think you'll be successful and I don't think it would be good for people.

There's a tremendous amount - you know, if you think about the advantages that people have now in terms of access to finance and credit - whether it be micro credit or domestic currency bond markets - we need to bring this to the developing world, not try to stymie it.

(UNKNOWN): Well, I'd like to say on behalf of everyone, thank you very much indeed, Robert Zoellick.

(APPLAUSE)

I mentioned at the beginning of our conversation that I didn't know anyone else who could move so comfortably between economics, to politics, development issues. I think you've shown just how knowledgeable and intelligently you could talk about those issues, and also reminded us that's what's needed, intelligent conversation, discussion, and negotiation.

So thank you very much.

ZOELLICK: Thank you.



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