C. Fred Bergsten: Let me welcome all of you today to the Peterson Institute for International Economics. We’ve got guest today from as far away as Australia so I’m delighted to welcome Peter Drysdale back to the institute on one of his visits to Washington. This is a special day and it’s a great personal pleasure as well as deep honor to hold a session with Robert Zoellick. It’s no hyperbole to say that Bob Zoellick is not only one of the finest public servants of his generation but one of the finest public servants of any generation.

Bob has had an enormously distinguished career in the US government through the 1980’s and 1990’s at the Department of Treasury, at the Department of the State playing crucial roles in everything from the Plaza and Louvre agreements through German reunification where he was a very central player and has been recognized for that by the German Government who’s ambassador is with us here today. Bob then lead US trade policy initiating the Doha round. I can’t resist saying that the speech in which Bob was to announce what was to become the Doha round was scheduled to take place in this conference center, in this building on 9/11/2001.

As I drove in and noticed smoke going up from the Pentagon, I thought, “Uh-oh, I’m afraid this meeting is not going to take place. Bob is in a bunker somewhere.” But we rescheduled for 10 days later and that history went on and Bob not only did that but with the help of some key lieutenants who are with us today, negotiated a whole series of trade agreements that resumed the active US participation of the world trading system and leadership of it. Then Bob moved to become Deputy Secretary of the state and another little Vignette I can’t resist, I remember meeting at his office at USTR just as he was packing his boxes and getting ready to move to state, and I tried out an idea on him, which I just decided to float in a new book.

The idea of being a G2 for US and China. I think Bob kind of liked that and quite properly without ever calling it that, of course, as soon as he got to the state, he started the senior dialogue with the Chinese which later morphed into the strategic economic dialogue which now morphed into the strategic and economic dialogue but Bob started that and launched what has of course become a critically important consultative process between the two largest economies in the world without who’s cooperation we’re not going to get very far in dealing with global economic problems in the 21st century.

Bob has had interludes where he’s had extremely productive careers in the private sectors at Goldman Sachs, at Fanny May. He has taught in a variety of universities, Naval Academy included, he’s written numerous articles and contributed to the intellectual dialogue from
a whole variety of locales and venues through the course of his very distinguished career. Today, though we'll talk about, I'm sure, all of those issues, the initial focus at least will be on his latest contribution as president of the World Bank.

I've stressed that Bob has had an enormously distinguished career as a US government official and he has of course been extremely effective in promoting US national interests but one thing that I've always particularly admired is that he has done so in a way that I at least always interpreted as promoting global interest as well. He's been able to simultaneously advance the interest of his own country and the interest of the world economy I think not seeing a contradiction between them but rather a reinforcement mutually between them and I think he's been uniquely skillful in promoting simultaneously those two huge policy objectives.

So in his latest incarnation, he had an opportunity to run the World Bank. He'll be leaving at the end of the month. His succession has been chosen as we all know and so at least in the first instance today, I asked Bob if he would be willing to look back over that period, tell us what he feels where his greatest accomplishments, the things he's most proud of having achieved at the bank. Maybe also, so it's not all softballs, ask him what he might've done differently as he looks back now over his record at the bank.

And then, if it's not too much, to roll it all into one series of responses and we can divide it up if you want, vision for the future. What should be the mission of the bank going forward? What should be its strategies? What's the agenda that you leave to your successor and the member governments that you think should now drive the future. So, with three easy, short, succinct questions of that type, let me ask you to reflect on this latest legacy and where it should go now in your absence.

Robert Zoellick:  Well, thank you very much Fred. I couldn't get beyond the extremely generous introduction because I kept thinking I hope somebody took notes for my funeral on this.

C. Fred Bergsten: It's on video.

Robert Zoellick: It's on video, good. You can just play it back if you're burying me. But I also want to thank Fred for the invitation to be with the Peterson Institute. I always have a special warmth and respect for not only Fred but the people I who worked here because I found over the course of some years in Washington that it's quite a rare combination of having first class scholarly work but that is also very policy driven and it is extremely timely and Fred has a formula for this and I'm sure that his success Adam Paulson will also sort of continue in that tradition so I appreciate the opportunity.

So what would you like to start?

C. Fred Bergsten: Yeah, review what you think were the major accomplishments, the things you're most proud of. What you feel the bank has been able to accomplish and contribute over your tenure.

Robert Zoellick: Well, I tend to see my role over the past five years in three phases but of course they interconnect. The first one was I came at a time of some turmoil so I had to turn around and since part of this I think is also how multilateral institutions work, I'll try to share some insights on this. The bank has some fantastic people. We have people from 170 different countries.
One of the rewards is how to try to be able to mobilize and draw people from different background to be most effective and fortunately my key judgment early on was the sooner we got focused on the core work to do, the more we get people away from water coolers and internal dissent. We have the advantage. Shortly, after I came in, we had a series of crises, which could focus the mind.

Most people were obviously focused on the financial crisis but in the development field, people have a keen eye to the fact that we really started with food and fuel prices late in 2007. The second phase was trying to make sure that the bank, which is a long term development institution, could also be a problem solving institution in the worst economic downturn since the great depression.

That may sound more obvious or easier than in fact is because I remember actually if you take the food price crisis, I have one of my standard management tools and we've got some of my former colleagues here in the office is to have a morning meeting where I get together all of those senior people but it's a pretty good group and we go around the table and I remember starting to look at some of the increase in food prices and asked about the danger of this for developing countries.

I still recall some of our economics team said, “Well yes, but when you look at the countries that will be able to have to pay more for food, they also should be able to gain from higher commodity prices so it should all work out.” And I introduced the idea of disaggregation because this wasn't necessarily going to be the case but also it was interesting, another response was this will be an issue for humanitarian agencies; we're a long-term development agency. But obviously if people can't get to the short-term you're not going to get to the long term.

So part of the challenge was actually to work with the UN and humanitarian agencies focused on the immediate, well also, in this case, planting the seeds for example to use agricultural productivity and production to create higher incomes going forward, including through the private sector and when we look at the crisis as a whole, I think the bank's commitments are well over $300 billion but as important as the sums are was our ability to try to work with countries and customize the services for the particular problem.

Let me just give you an example or two. When the crisis hit, Indonesia wanted to have a modest stimulus program but the finance minister, Sri Mulyani who now works with us wasn't certain that she could get access to markets. So we put together a back stop facility with Australia, with Japan, with the Asian Development Bank so she could present a budget and be assured that they would get financed.

Another one and this is quite apt today is the Western European countries tended to focus on their problems and not pay so much attention to the effect on their banking system on central and eastern Europe and so we worked with the EBRD first of all and then the EIB and the EC. They've put together this Vienna Initiative. They try to work with the banks from France, in Austria and Italy to stay in the market and that's something we've had to actually reactivate in the current period because just to give you a little interesting factoid, I think about 30% of Bulgaria's deposits are in banks that are in Greek banks.

You can start to see their ramifications in this. Part of our challenge as an institution was how we could customize, be faster, more flexible and then I guess leads to the third phase
which is, I think, one of the challenge is how do you continue to modernize multilateral institutions. Not being private sector institutions, you don't have the same profit motto or bottom line and this ranges from everything from we really get the first capital increase for the bank in some 22 years to trying to, for example, one of the biggest changes from my tenure might end up being an initiative we launched to open up all the data and information of the bank going back decades and really not only adding to the transparency of the institution but starting to change how people think about development.

So as opposed to being a lead top down model, our notion is how can we work with the clients to solve problems and the notion of the client moves beyond the government to frankly the community. So you can now call up our, the countries we work with, find any individual projects, get the data and before long we'll have this in an interactive form and when you start to think about local ownership, the effect on integrity programs where people can, in a sense, check to see whether, what’s supposed to be being done and a village is being done, this really have some transformative effect on the notion of development.

The one reason that I highlight it is that, and I’ll conclude with this. When there were discussions about my successor, one individual, not one of the three finalist, it’s interesting, made the point to say, “Look, the bank should just focus on these three things.” I found it interesting because it was, it’s really a 180 degree contrast from my policy model which is work with the client, get a sense of what they see the problem is and then try to bring our resources and other resources to bear and so in some ways the three big things model is, in my view, a throwback to some of the development mistakes of decades before where an elite university or an elite professor says, “I know all the answers.”

What we learned is we need to have knowledge in interactivity so that we can contribute and other increasingly what’s characterized in the field of development is you’re getting examples and insights from other developing countries and that is part of a rich network but I think the days of the top down development planning are thankfully gone.

C. Fred Bergsten: Let me digress a little bit from the, order I had in mind to pick up two things you’ve just said and draw you out a little more on them. You mentioned the banks were all in Eastern and Central Europe in the previous stage of the crisis. What about right now? You've gone back into hungry I think but there are increasing number of people who say Greece is not an IMF problem, it’s a World Bank problem. World Bank to helping Greece?

Robert Zoellick: Well let me start with the easier parts. It also goes to the role that I think these institutions can play in an anticipatory fashion. I am most focused on the aftershocks for southeastern Europe and the Balkans, which obviously have political, and security dimensions for countries that have been through civil wars in the recent memory.

Also the effect on North Africa into a degree on trade finance particularly for West Africa. So these are some of the aftershocks that you need to prepare for in dealing with the crisis coming out of Europe. Just to give you a little example with some specificity. I think some people may remember that the European banking authorities made some pronouncements about capital levels but they didn’t say how the capital was to be achieved.

You actually had some of the national regulatory authorities in Central Europe telling the central European banks they actually should be pulling out on the Balkan countries that
they operated. Quite interestingly, I called Mark Kearny, the head of the Financial Stability Board who I think is a first grade public servant and he had noted the same thing and we started to then pushed back a little bit on European banking authorities but equally important, tried to go and reassemble this group and try to show that we could provide some additional financial support but to try to keep the banks in that market.

C. Fred Bergsten: This being the Vienna Initiative?

Robert Zoellick: Pardon? The Vienna Initiative, yeah. But in the case of Greece, my own view is we've tried to keep a little distance from this and that on the one hand your intuition is right that I think this is partly a structural and microeconomic reform issue and I think that's one of the topics that's been lost in the broader discussion which is focused on the macroeconomic elements and what I see in the developing world is actually a much greater focus on the structural forms for future productivity and growth.

But, we have to decide how we are going to allocate limited resources and frankly these are also the political judgments that you make and my concern was that if the bank were drawn in and became the reform taskmaster for the Greek government given the political tensions that it might not be as productive for Greece as it would be harmful to the bank.

This is a sort of role that I think may need to play but this is where some of the political judgments come in about whether this would be something that would serve the bank's interest recognizing that we do particularly in terms of technical talent, our first call should be for developing countries.

C. Fred Bergsten: You also mentioned the succession process that’s just occurred at the bank. We’ve had one here at the institute, you referred to that. I’m pleased as punch with the way it came out. Let me ask you to comment on the succession process at the bank and particularly look forward to the next round, presumably five years from now, how do you feel the succession was handled at the bank in this round to succeed you and what would you recommend for improving it in the future if you think it needs further adjustment?

Robert Zoellick: Well, first to make clear, I was not part of the succession process except with sometimes informally people might ask my view on something but I didn’t proffer views that wasn’t asked. I think the starting point is for people to better understand what the job of leading this institution is about and my own sense is that more than is generally recognized as is the case for many executives; you actually need a multiplicity of skills.

It certainly helps to have some backgrounds in economics and finance but you've got a lot of talented economics specialists at the bank and very great financial minds as well. So it helps to be able to interact with those people as you will in other types of public sector jobs but just as important are diplomatic skills, we have 188 shareholders.

Some sense of communications and political skills because you're working across different systems. You're having to maintain support from developed countries in this case under pressure at the same time you're trying to get the emerging markets to play as in a more active role and importantly, for any multilateral institution, the least common denominator, sort of position is allow procedures and committees to choke off action.
So you need to have some sense of how to move those institutions but move those institutions in a way that tries to bring people along. In a way, you want to have a system that tries to encourage innovation, fresh thinking. It certainly doesn't come all from the top but instead to try to create a framework whether it'd be gender and development, post conflict security, the role of middle income states, the different set of problems and encourage it.

Sometimes when people talk about the job, they actually miss a lot of the executive, diplomatic sort of qualities as much as the pure developmental ones. I’ll say this other thing about the big issue of course is the US role in this. Here I will just offer a bit of a contrarian opinion based on our mutual careers and that is I’ve spent 25, 30 years either in the US government or working closely or being interested in and trying to have the United States play an active role in the multilateral system.

That system is changed enormously. You talked about unification of Germany and NATO, we talked about the WTO, we have regional trade agreement so I’m not trying to say multilateral is just being global but a multilateral system. I actually think it’s a very good idea for the United States to have the responsibility of having some of its citizens in leadership and in the top leadership roles in these institutions.

If you ask yourself how many Americans have been head of the World Trade Organization, the IMF, UN Secretary General, any of the regional development banks, I could go on and on, you’ll find that the number is zero. So my view is it may not necessarily need to be the bank but let’s be careful about pushing the Americans out of these jobs because A, you may not necessarily like the consequences in terms of US support but B, I think it’s important for the United States to have a sense that United States was in a sense one of the catalysts and founders and designers of this system.

I still think the United States needs to play as a key role as the system evolves so I think it’s important that the United States not be detached from it. Having said that, it doesn’t necessarily matter which institution, I’d be available for the IMF the next time around if you like but I do think that’s a point that sometimes missed.

C. Fred Bergsten: Now you’re talking about systemic responsibility, rightly so and you mentioned along the way the effort you’ve conducted to bring the emerging markets into playing a more active role and we’ll talk a little bit specifically about China later but let me ask you the broad point, how do you feel that process is coming?

Are the emerging market is stepping up? In the bank, are they making that transition from recipients to donors? Are they playing an effective role as increasing thought leaders? Sharing the experience of their development records with the rest of the world? How is that critically, I would suggest, critically important systemic process, how is that coming off your experience in the bank and elsewhere?

You go to G20’s, you’ll be at the next one in a few days, how do you see that overall? These are among your biggest clients and you work closely with them, you’re probably at a better position than most to give us some judgments as to how the emerging markets are doing in fulfilling their increased responsibilities?

Robert Zoellick: Well, let me set the context for this because I think it’s a very critical question from a number of dimensions. Let me start because when Fred and I talked about these issues,
while we try to the economic as close to right as we can, I think we tend to see them as political economy issues as well. Let’s go back to the origins of the World Bank and the IMF and the gap, which became the WTO.

It’s important to remember that a lot of people, who come fairly from economic bin, I think, lose sight of this. These institutions were created in 1944 at the heart of World War II in part because people were trying to learn the lessons of the security and political consequences of economic cataclysm. So they designed these to try to deal with questions such as currency and exchange rates, investment, reconstruction of broken states, development, trading system, and if you think about those topics, they remain vital today.

Now, the system has changed enormously and so one of my themes was how to modernize multilateralism, how you change the system and the institutions to deal with the variety of changes in the international system but if you have that perspective, it gives you a slightly different strategic outlook on the challenge, for example of middle income countries.

When I came to the bank in 2007, there was a very strong view in some quarters that said, “Look, the bank shouldn’t work with the middle income countries. The bank should be working just with the poorest countries and the middle income countries can take care of themselves.” If you have the strategic perspective I outlined of a multilateral system, it would be a mistake of historic proportions to push the middle income countries out of the multilateral economic system just at the time that frankly as we’ve seen in the past five years, they’re playing a greater role in the international economy.

One of my views is whether the issue is development, trade, currency, commodity prices, increasingly security issues, the challenge is how do you interconnect these countries into the system? Now as for the bank, I think there are multiple aspects of this. By the way, it’s useful to keep in mind that the so called middle income countries are the home of about 70% of the people still living under $2 a day so even on a pure poverty agenda, this is a valid attention.

Increasingly our role with these countries is more in terms of the analytical and the knowledge and the sharing experiences than it is the pure financial. But the financial crisis also showed that under stressful situations, it’s certainly beneficial to have a counter cyclical funding source and even some of the middle income countries that were proud of their access to markets, it’s nice to have some funding that is of longer term and be able to manage it in different ways and frankly, through IFC, our private sector arm and we’re drawing in other players, sovereign funds, equity funds and others into the private sector often in frontier markets.

I think that one of the issues that you’ll see increasingly in the future though is highlighted by this report we did with China, the China 2030 report. We’re finding increasingly that middle income countries who are focusing on the structural reforms are concerned about the pattern that you’ve seen where economies tend to grow rapidly for a time and then they start to level off.

In our China 2030 report, there was an interesting chart that pointed out in 1960, there were 101 economies that the bank classified as middle income. By 2008, so almost half a century later, only 13 had made it to high income and one was Greece. So this challenge,
the analytical challenge of increasing productivity and the structure reforms to move to high income I think is something you’re going to hear a lot more about.

Now, part of this is their role in the bank. Well, one of the things that we try to do is bring more people from those countries into the bank at all levels. We had the first chief economist from developing world, Justin Lin, from China. A number of the senior managing directors that I had the next level below from Indonesia, from Egypt, from Nigeria and this in a sense something you try to permeate throughout the organization.

But the encouraging thing is if you work with a number of the middle income countries, you can also get them to contribute more to the system as a whole and let me give you one practical example. The bank has a fund called IDA, which is grants or long-term credits without interest for the 79 poorest countries.

So we have to raise that money every three years. The last IDA that we raised, we got about $49 billion including reflows and I knew it was going to be very difficult to tap to traditional donors so I went to the Chinese and I said, China no longer is an IDA borrower but it had long-term IDA credits so I said, could we work on an arrangement where you would pre-pay a considerable of your IDA credits well over a $1 billion which is a special and differential way for the trade people for them to contribute to the system and adds some significant sums and in discussing this with the Chinese, they were open to it but they said we don't want to be singled out and so we worked with some other middle income countries to do the same thing.

That was one dimension. In this capital increase we got, we did a combination of price adjustments. I was able to get better access to some of the national currency paid in capital on the balance sheet that people hadn’t tapped before. So over half the contributions to this capital increase came from developing countries.

One of the challenges however for the bank is that we have a board that is now 25 different seats and there's an ongoing challenge for the board members not to allow the politics of the G77 to infect the bank and to break in to north, south divisions but so far, I think through the combination of some individuals on that board who can bridge the gaps.

We have a Canadian executive director who's been quite experienced and quite good to reaching across the different lines here so it does depend a lot on the people but obviously it's the role of the executive to move in that direction too.

C. Fred Bergsten: Okay. Let me, in a way, revert to my original outline and ask you to reflect on things you might have done differently. I won’t call them mistakes or errors but if you look back, are there things? Maybe there aren’t any but are there any with hindsight you might’ve done a little differently?

Robert Zoellick: I think my main sense of where I would’ve liked to have done more is that given this financial crisis. Sometimes you can only move an organization in your support at a certain pace so I’m—sort of an activist by nature, I like to focus on results but I see the need out there being so extensive that there are some things I would’ve like to move a little faster.

Now, some of those you try to line up to use for the future. Let me give you an example. I mentioned IFC, our private sector arm. One of the innovations that I think is quite
interesting is we created this asset management company. The first time I think on a multilateral by the way is greater subsidiary, didn't get much notice where we used, we tapped the sovereign funds and wealth funds through our equity funds that we invest in developing countries and these are often accessing players that we’re not going to those standard Brazil’s or India’s but this is Sub-Saharan Africa or other frontier markets.

But, we started to look at the possibility of a hybrid capital issue, which would be issued to our shareholders. It would probably be better than holding some of the standard debt they’re holding today, we’re a triple A credit. We could structure this in a way that we could count a significant proportion of it as capital. It would create going back to the middle income countries.

Some of these might be the players that would hold these notes and it could be a very, in a world where it took us 20 years to go back and get a capital increase throughout our capitals, you could add with a capital in a novel way that might be useful for other institutions. So there's tools like that that I wish we could move a little further.

Another one is that the bank as a cooperative and so we have a challenge in our pricing. Most people would expect prices to change second by second. Our pricing hadn’t change for seven or eight years before I came and we now do an annual price change. I wish the bank had more flexibility with maturity and pricing which would give us more flexibility to be able to lean forward but this is the sort of tool that you might have depending on events in the international economy.

So it’s really the creative use of the structure that I think would allow the institution to even do more on the development side.

C. Fred Bergsten: Well, I suspect that’s a partial answer to my next question which is, looking forward now, your successor is about to come in, what would be the two or three highest priorities that you would now place on the future program of the bank going out for a year or two or even a five year term of your successor.

Robert Zoellick: Well, I tend to be careful on this because I believe when you leave, you should leave and you should let your successor set their course but since we are in an extraordinary period in the international economy, I would just say that if you reflect about some of the discussion at the bank five years ago, there was a question of whether the bank would be relevant?

Well we’ve certainly got it into the relevancy category so we now have people actually urging us to—we’ve done some innovative things with climate investment funds, with biodiversity, I’ve now got the environmental community urging the bank to be part of the solution. So I think this notion of a problem solving nature and trying to be responsive to what you perceive are all of your shareholders’ interest, developed and developing, is probably the best general advice that I could offer.

C. Fred Bergsten: Okay. Let me build on that and now radiate out from your experience at the bank through your broader experience and expertise. You are well-known for being one of the most thoughtful, creative and insightful big picture thinkers in the world. Some possibility you might return to positions in the future that might lend itself, lend themselves to such efforts, let me ask you to look more broadly at the global economy coming out of this crisis period.
You’ve been in G20’s, everything else over this period. You’ve been right in the middle of the crisis management, which has had also huge systemic implications, and you already mentioned some of them. So going forward, big picture, what major new initiatives need to be taken, what new types of analysis for people like ourselves in the think tank to learn from this tumultuous period for trying to stabilize, strengthen, make more prosperous, the world economy going forward?

Robert Zoellick: Well, we still live in a world where the public policies come principally from nation states so I think the challenge is to recognize the need to get the policies right at the national level but then leverage those to drive some of the global and multi-lateral changes. I started with the United States, it’s the world’s biggest economy, the most important economy, the most dynamic economy.

If the US isn’t playing an active role or worst, becomes a source of protectionism that is very bad for the international economy. I would start with a comment that I got from the Australian foreign minister Bob Carr who visited Washington about four or five weeks ago and when I asked him what his main message was he said, “the United States is one budget deal away from restoring its global preeminence.”

He said, “but, you need to be aware that there are people in the Asia Pacific region that are saying the US isn’t going to be able to get its act together so you better listen to what we have to say.” I think that’s not a bad starting point. Even dealing with the trials in Europe today just think how the US would be better placed if Simpson-Bowles or Domenici, Rivlin or others had made significant progress over the period.

We are where we are. There’s a process that I think with the combination of the fiscal cliff and the election that provides an opportunity here. My number one interest would be trying to use that opportunity to make some serious headway not just on balancing budgets I might say, because it’s also going to be important going to our point about structure reforms about getting the microeconomic incentives right.

One of the lessons here is how you can incorporate structure reforms and here just to connect a little bit with emerging markets. I cannot go to a developing country that isn’t interested in public-private partnerships for infrastructure. For a lot of the middle income countries, it’s not driven by the need for capital.

It’s the belief that the project will be better designed, better operated, better maintained. Well, you look at the US states, they got a lot of debt problems but when I took accounting there was an assets side on the balance sheet too and a lot of them were sitting on some pretty significant assets including toll roads and it’s very interesting—Governor Mitch Daniels did some very innovative things in Indiana.

Mayor Daley did the same in Chicago. The state of Pennsylvania said, oh, no. We can’t monetize our toll roads. Chongqing, China, the home of Bo Xilai were monetizing the toll roads so maybe some of the states in the United States could become a little bit more capitalist in their use of these public assets.

I think that’s one point but then I think building from that—this is where in the sense the real economic diplomacy comes in is that how can the United States use that to, for
example, re-push the trade opening and trade levelization agenda which you’re going to have Kevin Brady here, I hope he’ll have a chance to talk to you about it which is frankly stuck and has been stuck.

That runs a big risk as you see protectionism and renationalization in economy startup but it’s also a terrible missed opportunity. If you want to do structure reforms, trade is one of the best ways to drive those and support reformers. I think another question that flows from what we’ve been discussing is you’re having a changed balance in the international economy with the role of emerging markets.

How, whether it’d be monetary systems, trade systems, development, others could, and security I might add, can you draw those into a greater cooperative network? To bring this back to the bank and the fund and the WTO, I have tended to view these institutions as a thin tissue that can connect the sovereign states.

It’s a mistake I believe to ignore the fact that he sovereign states have to drive policy but it’s an equal mistake to disregard the rules that these institutions can play in drawing attention to issues coming up with multilateral solutions. Sometimes having resources to bring to bear and try to find cooperative solutions.

C. Fred Bergsten: Let me just ask one follow on to that. You talked about the individual institutions, what about the steering committees? You’ll go into a G20 summit in Los Cabos in a few days, the G20 play the big role early in the response to the global crisis. Some people say its run out of steam and this upcoming meeting for example may not be up to the task that we now face.

But again, thinking from an institutional standpoint with your unique experience with this going back 20 years to G5, G7, all the Gs, how as the current coordination process working and is there a need for further evolution or reform in it to achieve the kinds of goals that you are enunciating.

Robert Zoellick: Let’s start with the G20. Clearly something beyond the G7 was called for because of the change in economic weights. So the good news is the G20 has got more of the influential players are on the table. The bad news is, you have too many and it’s always harder to get things done in bigger groups.

So based diplomatic experience, what would suggest to me is the critical importance and informal subgroups so this is where the G7 should not be abandoned but also you have the north American countries, you could have the US and Europe. If I were guiding US policy, I guess I would want to have a Venn Diagram where it’s interconnected with as many subsets as possible including key emerging countries.

This is an idea that I think I had floated a while ago in a different G20 context. Just think of the effect of the international system. If president Hu and President Obama stood up at a summit and said this is our joint structural reform agenda. So here are the things that China’s going to do based on the China 2030 report. Here’s the things that the US would do whether it’s based on the types of budget discussions or other aspects and that they are a sort of parallel processes but we’re both sending the signal to the world under your G2 idea that we have to focus on structural forms. You watched with the whole G7 process that Baker lead and part of this is the communication of with the policy substance. So I think a
little bit more creativity of those sort of ideas could be called for? Having said this, I think it's important when you look at the G20 to look at different tier issues. There's actually some useful work being done on things like financial inclusion and trying to create better environment for public-private partnerships for infrastructure, natural disaster resilience.

There are things that can save lives and improve economies but they're not headline news. I think it's important not to throw those out and Mexico has done a pretty good job of trying to encourage us going forward but the bigger things that fit the times I think going back to my core point, will require the big economies to play a leading role.

C. Fred Bergsten: Alright, then my final question and then we'll open it up, follow up on that. You've mentioned inevitably several times in your remarks China and the role of China. You mentioned in your 2030 report. I think it's a superb document, I know you worked it out very carefully with top Chinese authorities. It's got a lot of legitimacy in China itself.

Coming off that springboard and all the rest of the work you've done with China, what's your outlook both for its economy, for its role in the world, its ability to fill some of this leadership vacuum that you talked about? Share with us your appraisal of China since it is so key and since you have worked with it so closely.

Robert Zoellick: Well in the short term. I think as everybody is aware, China is slowing down. I don't think it'll be a hard landing but it could be a bit of a bumpy landing as they go forward. I think it's important to understand the context of Chinese politics and political transition. Inflation is an extremely sensitive issue in China and its affect on the general public and even if you go back and look at 1989 with inflation statistics and so coming into this year, the leaders are going to be particularly anxious to be able to dampen inflation particularly food price inflation which they buy in large dumps so they've got some policy room to come back.

But now, what I would watch closely and this connects the short-term with the medium and long-term is that as they consider some stimulus will they return to the model they used in 2008 which is the basic sort of traditional investment expansion or will they start to make some of the structural reforms that are important to change their model of economic growth and that was the whole motivation for the China 2030 report. And to give the Chinese officials appropriate credit, this is an economy that was growing 10% a year for 30 years but there are at least some people that are saying, You know what, this model isn't going to continue to work forever.

We're going to have to think about how we actually move to increase domestic demand and change the fiscal system and add the hard value-added production and a series of other things” and so, in some ways, there are some interesting lessons that are perhaps for developed the economies to consider structural form agendas and what's interesting and it shows again the evolving role of the bank.

We're already finding this with other middle-income countries. There's an appetite and interest in learning from the sort of Chinese project going forward. So, I think the challenge will be to watch how China will pursue these reforms. My own sense of China is that I would not expect a big bang. I would expect incremental pilots. I would watch in 2013 something Governor Zhou at the People Bank of China pointed out to me is that the third session of the 18th party congress late in 2013 and so, he said, “I would look to see whether the leadership in a sense takes some of these ideas and advances them at that point.”
The planning process of course has drastically changed in China from the old days where the NDRC gave detailed directions. So, the other thing one has to do is you have to look at what's happening in individual provinces because many of them are hundred million people more than others and so, I guess, I feel without being Pollyannaish about it from talking with various provincial leaders. I think the move for reform and the recognition is afoot but how far and how fast, it's hard to tell.

Now, let's connect that to the United States. If they make some of these reforms, there are actually some interesting opportunities to strengthen China's engagement with the United States and others in the world and these are things we actually talked about in the report. So, for example, service sector reform. One of the ways to increase productivity is to add competition in the service sector. So, it's not unknown in the process of development.

Many countries start with the agriculture sector then move to manufacturing sort of export-driven sector. The service sector doesn't proceed as fast. And again, going back to my own experience, something you may recall in Bush 41 administration. When I was at the State Department, we launched a Structural Impediments Initiative with Japan.

And in some ways, some of the problems of modern Japan are they didn't take the report and work seriously because they didn't really improve some of the productivity and some of the nontraditional manufacturing sectors. So, in some ways, China can learn from Japan's mistake, which China likes to do. So, these could be the types of things that would also, opportunities not just for private investment of Chinese firms but also foreign firms. Cross investment. You're going to have the Chinese look for investment opportunities, which can create jobs and create various tie-ups.

Energy and water efficiency. There's going to be big huge issues. I mean China's a very dry country and is very short of water for its needs so there's that possibility. As they move up the value chain, as they try to move to sort of technology development, there could be some possibilities in strengthening IPR projection. So, what I think is interesting about this in going back to your reference about the strategic economic dialogue is that well I know you feel very strongly about the exchange rate issue.

In some ways, you can move some—and similarly, the changes are going to need to make a financial sector are the types of things they will move to an open capital account and then we can have the exchange rate determined by the market. So, I think there are openings that I hope creative policy makers in the US and others that use to try to push in the direction where the door is being opened.

C. Fred Bergsten: Just for record, I testified to Senator Warner's the Senate Banking Committee on the China issue a couple of weeks ago, the Strategic Economic dialogue and I came pretty close to declaring victory on the exchange rate issue since the rate's going way up and the current account surplus has come way down and Bill Cline's analysis shows that if they just let the rate keep going up at the pace of the last couple of years, the current account surplus will disappear in the next three years. So, pretty close to declaring victory as long as the Chinese …

Robert Zoellick: But the real issue is if they move to an open capital account, which is what they need to reform the financial system for their own interest to do so. Then, we'll figure out what the exchange rate is because the market will tell us.
C. Fred Bergsten: Okay. The floor is open. Bob, you’ve been enormously generous in answering wide range of questions. So, I’m sure a number of our audience will have the thoughts as well. Let me ask you either to go with the standing mic at the back or use a travelling mic that’s coming around. Be sure to introduce yourself. Tell us where you’re coming from and then fire away.

Lisa Friedman: Thank you. It pays to sit in the front, I guess. Thank you very much, sir. My name is Lisa Friedman. I’m with ClimateWire, we’re an Energy Policy Publication in DC. I was hoping you could first clarify the role that you either are taking or have already taken with the Romney campaign and on climate, can you—you’ve been obviously an outspoken advocate for addressing climate change in developing countries.

As you go forward with the campaign, how do you envision squaring your commitment to climate change with the candidate who’s equivocated on climate and with the party that increasingly is led by lawmakers who really don’t believe in the science in climate change and don’t want to put the money to some of the programs that you’ve helped start at the World Bank.

Robert Zoellick: Well, your first question was what can I say about my possible work with the campaign after I leave and the answer is nothing. So—and that of course takes away for precept for your second question. [laughter] But to try to be constructive … Look, let me say a word about the bank but then also connect this a little bit with the politics.

We’re going to—having the 20th anniversary of Rio, okay. One of the other penalties for the sins in my life which I wouldn’t acknowledge to Fred is that I steered the US policy with Bill Riley and others for the last few years and we actually put together the climate change framework convention which I thought was a pretty good convention because it built in various types of flexibilities for national programs and also for uncertain.

So, some people objected to Kyoto. I was one of them because I didn’t think it would work and I thought if you didn’t have developing countries as part of solving this problem, you wouldn’t sustain the support in developed countries. So, just because somebody opposes something in climate change doesn’t necessarily mean they’re ignoring the issue or that they’re wrong. We actually turned out to be right.

I think Kyoto was actually kind of a diversion for a long-time period in an unproductive fashion. At the bank, one of the ways that I thought we can make the best effect was to recognize developing countries have to be part of the solution and developing countries are also affected by these changes. So, Hank Paulson, a Republican Secretary of the Treasury, I might add given your political comment, got together with me and we said, “What could we really do to jumpstart this?”

So, we created this climate investment funds and Hank and I raised at that time about five billion dollars. I raised about 2 billion more to finance funds to try to help with energy efficiency projects, transport projects, adaptation projects, forestation projects, a whole range of practical things. We’ve leveraged that to about 50 billion dollars, projects in about 45 countries around the world and in the process, not only have learned some things and done some good, we brought developing countries into the process in a more constructive way and just as a good example.
Many people negotiate with India, know it, sometimes, can be a challenging partner. The Indian environment minister who has now moved to another job told me he wanted to do a project with the bank through the climate investment funds because he wanted to show India support for the climate investment funds and the role that the World Bank did with it.

So, these are the types of ways you can build momentum on the ground and just again, to give you a very practical sense of this. It relates to Fred’s question about sort of multilateralism. We, at the bank, my team and I personally work very closely with President Calderon before the Cancun Meeting and part of it was my concern after Copenhagen that if your goal is to get 195 countries to agree to every word on a thousand-page agreement, that may not be as productive as getting 150 degree on avoided deforestation, 140 degree on soil carbon, 130—by the way, the framework agreement for Rio permits all this as opposed to having other.

And so, President Calderon had a pretty successful meeting making progress on this and in addition, one of the things that I suggested to the Mexicans was the best chance to actually bring all the countries together on the agreement would be if you’re making the moving parch work including for small island states, for example, with their specialists. So, you need to think about the politics as well as some of the climate economic issues and that’s exactly what he did.

There was one country that resisted at the end and you need to expect that in diplomacy, which was Bolivia and one of the things we also, based on some diplomatic experience was suggest to the Mexicans that people might think consensus means all countries but in the wonderful world of international diplomacy, it may not necessarily mean all countries. So, they left Bolivia out and they got a consensus on this.

So, there are couple of points at this. One is I think if you’re really serious about these issues; you got to bring developing countries in. You have to listen to them. You have to this in ways that show the commonality of interest. I just alluded to soil carbon. Some experts believe soil carbon could be absorbed in about 14% of the carbon where avoided deforestation is 17%.

This is a great opportunity to work at places like Sub-Saharan Africa to be able to increase and improve their agriculture but how do you develop the systems? How do you measure it? How do you make sure that people get the incentives right? How do you try to make sure that the techniques to put carbon into the soil are developed? These are the types of things that the bank can do. So, I guess what I would just say is that I think also when it comes time to bringing around support in the United States and these climate investment funds we put together ended up having to have US appropriations, Republicans as well as democrats supported those appropriations.

So, I think what I’m always concerned about in this field or biodiversity, which is another one I have a strong interest in is that if you draw the dividing lines, and as your question said, “Well, Republicans are on the wrong side. The other guy’s on the right side.” Well, then you’ve just lost 50% of the people. I don’t think that’s as productive a way to go whether it’s developing and developed world or US politics.

Come up with practical solutions. A lot of people, we take an avoided deforestation. We added a wild life premium working with the World Wildlife Fund. There are a lot of people
across the political spectrum that are interested in animal conservationist. So, find things to bring people together as opposed to divide them.

C. Fred Bergsten: Danny.

Danny Schifondale: Thank you, Fred. Danny Schifondale with China Xinhua news agency. President Zoellick, several years ago, you coined the phrase, responsible stakeholder to address China’s role in a global system. In your perspective, do these generalizations still apply well to China or you want to upgrade it? What are the priorities for country like China to balance its domestic challenges like employment and rising global expectation on it as a rising power in the world? Thank you.

Robert Zoellick: Well, there’s a lot that could go in to that question. Then, let me just emphasize that the logic trying to build on the exchange that Fred and I had is that China’s growth in development strategy over the past 30 years benefited enormously from this international economic structure and security structure that the United States and the trilateral community and others had created. So, even though China is a developing country, it’s in its interest to support that system to be a stakeholder and to do so responsibly.

I gave examples in the development side where I think, frankly, China has been a very good and supportive partner from the World Bank, from everything from analytical work that will drive others to now we’re working with China about possible manufacturing, investment in Africa to the IDA example. If you look at the economic crisis, I guess if I compare China’s performance with Europe’s, I would say that China at least ranks pretty well.

But here is where I think the real issue is going to be. We’re going to have economic tensions and for a lot of different reasons. The good news is the economic community in China, I think, has developed a strong network of ties not only in the United States but in Europe and Japan and all throughout the world. And so, we might mess it up but I think there’s a reasonable chance that we can try to find win-win solutions or whether where we have to disagree. We try to manage the disagreements, which happens in all of international relations.

I’m a little more concerned on the security side because you don’t have that web of ties. So, both the United States and China have tried to developed a Mil-Mil dialogue and I think that’s a good thing. I’ve encouraged it, but it tends to be a little bit of a show and tell and I think part of this maybe structural, which we’re going to have to think about how to get at. The People’s Liberation Army reports to the central military commission, of which there are two civilian members.

And so, you don’t really have a National Security Council structure like you do in the United States or European systems. And so, we don’t really have the Pol-Mil Dialogue on security issues that is anything remotely like which we have in the economic side. And so, this would be my suggestion is to take the notion of sort of developing a security system and common interest in the security system and perhaps learn some lessons from the economic side.

And just go be encouraging, think of some of the common interest. China’s a big commodity importer. It should have a very strong interest in freedom of the seas. It should have an interest in energy security. It has concerns about Islamic radicalism. It should have
concerns about Afghanistan and Pakistan and stability. You certainly don’t want North Korea creating sort of a security threat to its neighbors. So, there’s a lot of issues if you can create the right structures and I don’t think we’re quite there yet on the security side.

C. Fred Bergsten: Let me ask you this to elaborate one piece of that. You praised China’s role in the development area but there are of course of a lot of people in the development field who worry that China, through its huge lending and investments in African countries in particular without adhering any of the kinds of conditions and our responsibilities that have traditionally with World Bank and other development money are undermining rather than supporting the system of transfers that has developed over the years including on good governance transparency, some of the things you’ve mentioned. What’s your response to that concern?

Robert Zoellick: First, it’s a reasonable point. I think that the US and Europe in particular have to be a little careful because the record of avoiding corruption and proper investment in Sub-Saharan African natural resources and others by some European and American counties leaves a little bit to be desired but I wouldn’t stop there and I would say people need to learn from the mistakes. What we have tried to do is work with both the Chinese and the Africans to recognize. On the one hand, there are things that are in Africa’s interest to help them with the negotiations, stress the transparency, stress the inclusive growth but also work back to the Chinese side and say, “You know that if you saw this a little bit in the recent Zambian elections. If you’re seen as the heavy weight not paying attention, not hiring local workers, it will come back and haunt you.”

Now, China’s a vast system. We’ve got partners in the government that want to work on this. Some of the Chinese companies that get the contracts go to the deals that they did before in the way they did before. So, I think that it’s a good type of issue where the bank can be most effective by trying to work on both sides of the equation, both the Chinese and the African side, and I can give you substantial examples where we made some progress. Let me just give you one.

In the case of debt forgiveness, I think it’s for the Democratic Republic of Congo, there was going to be a major Chinese investment in mining and infrastructure and it look like it might sort of violate the kind of the debt additionality rules that the countries were forgiven debt would do. So, we worked with the Chinese and removed the government guarantee from what was in the sense the private sector part of it but left it with some of the public sector report.

So, I’m not being Pollyannaish about this but what I’m suggesting is there’s recognition on the African and the Chinese sides—this is something to develop and I made a brief allusion of the fact that the changes in China’s economy where they’re going to move up the value-added chain offer very interesting opportunities to have some low-wage manufacturing move to Africa. We did a report on this. I mean Justin Lin, the former chief economist, pointed out to me that there’s about 85 million low-wage manufacturing jobs in China. In all of Africa, north and south, there’s perhaps 8 to 10 million.

So, if you can simply create the energy, the ports, the logistics, the training to move five million of the 85 million, you will improve it by 50% and we’re starting to see some significant changes in Ethiopia. There’s already Chinese firms moving from Guangdong
and so, some of them are for domestic markets, some of them for international but it's a good example of what we've been talking about today which is you need to see these opportunities. Then, try to see when you can do to catalyze them.

C. Fred Bergsten: Mike.

Mike Finger: Thank you, Fred. I'd like to join your complement to Mr. Zoellick for his work as head of the World Bank. I worked there for 27 years and even more proud to have worked there after your leadership than before …

Robert Zoellick: Well, thank you. That's very nice.

Mike Finger: But even so …

C. Fred Bergsten: He's a tough guy, Mike Finger.

Mike Finger: Even so, I'm willing to ask what might be a hard question and that is what would you suggest the bank's role should be to help developing countries to avoid trade restrictions and to remove those in place. I asked because I read your published straight strategy and while it announces a lot of work to support the WTO negotiations, and it says that trade restrictions are not a useful part of a development strategy. That statement has no operational content. It's like the human rights part of the Soviet constitution.

When I looked at the bank's country strategy paper with Argentina, I find that it takes up trade only as—and the phrase sticks in my mind an avenue of transmission of global instability which isn't a lead-in for a lot of trade liberalization sort of stuff. So, again the question is what do you see or what would you suggest to the World Bank's upcoming president even though you said you want to be still on that should be the bank's role in supporting developing country governments to avoid import jurisdictions and to continue to remove the ones in place?

Robert Zoellick: Yeah. It's a good point and I think there's a couple of things. One, I've talked about the change in world economy and I think one of the aspects you're going to see is increase South-South investment trade remittances, tourism and the barriers between developing countries are still much higher than they are between developed and developing countries. So, that's a point one can both highlight and encourage about how it can be in country's interest to drive microeconomic reforms do with inflation so on and so forth but I think the area of that has got the most promise in the short-term is one that I've worked with some of the people in this room about which is that as we did some analyses of the trade logistics, the beyond the board of barriers.

You can see a lot of these across are much higher than the traditional tariffs and quotas and they fit within the WTO and the trade facilitation agenda and we've been actually trying to work with the WTO to see if they could break that piece free and work in agreement, that's nature, but even if they don't do it that process, we're trying to work with expressed delivery companies, some computer system's companies and others to show the huge benefits of being able to move goods more quickly through borders and frankly in a more transparent way to combat corruption and I gave a speech with the Inter-American Dialogue last week where I talked about sort of the cost of doing business and logistics in Latin America compared to some of the East Asian countries.
And it’s a huge Latin cost in terms of trying to deal with productivity. So, I guess what I’ve found with countries is they respond best to self-interest. So, we can show them how certain policies can help them reduce cost, make their industries more productive and sort of add to their ability to be able to compete internationally. That’s probably the most effective starting point.

Well, let me take one more dimension and that is I talked about productivity and service sector. One of the problems in a lot of countries, certainly true in developing countries, people don’t even have the data on the barriers. So, you know the traditional trade negotiations were done by commerce or trade ministries. They have the tariffs. They have the quotas but the issues in telecommunications or finance or postal services or others are done by different ministries and they’re not part of the trade world.

So, part of it is even to get the data, this is part of our broader open data initiative to sort of help countries understand what barriers and cost that they build in and then show the overall benefits. So, I guess the last point I’d make is I’m glad you raised this issue because I think that—I’m concerned in the broader economic situation we’re in that we have some fragilities and cracks of uncertainties and while we’ve avoided a broad-based protectionist response so far, I think it’s starting to creep up and I’m starting to see this is another topic instead of re-nationalization of policies not even necessarily in the formal sort of trade area.

And you’ll see more of this now in developing countries as they rely more in domestic demand. As they move away from export-led growth, you’re going to have to expect that there’ll be constituencies that say, “We don’t want our domestic demand to leak out.” And so, there’ll be different types of administrative measures. So, this is an issue that I’ve actually just been talking with my staff in the past weeks about how we want to try to highlight and influence this more and the final observation is, coming back to the role of some of the advanced economies and leadership, please recall, when I was US trade representative, I did a lot of free trade agreements with developing countries and I saw it as much as a development strategy as a trade strategy.

Now, some of the trade purists say, “Well, why are you doing this? These are small economies.” But a lot of those trade agreements were very effective in getting microeconomic reforms in countries like Morocco or the Gulf or Central America and others. So, a good American trade strategy can help too.

C. Fred Bergsten: Okay, we’re approaching our closing hour. So, I want—there are three, I guess four people at the mic. So, let me ask them to ask their questions together and we’ll group them. That’s a little hard for you but let’s do that. So, introduce each of yourselves, fire your question and then I’ll ask Bob to answer as a group.

Barry Wood: Barry Wood from RTHK in Hong Kong. Reflecting back on your experience in Europe at the time of German Unification, Monetary Union in Germany, what’s your sense of how this monetary crisis with the Euro is ultimately going to work out? And do you sense that European countries are willing to give up the sovereignty necessary for a Fiscal Union?

John Williamson: John Williamson of the Peterson Institute. In responding to Fred’s question about the succession in the World Bank, you remarked that there was an advantage and having a US citizen at the head of one of these organizations. Now, I think many of us would agree
with that but at the same time, it doesn't follow that it has to be the World Bank that an American citizen is head of. Is it not your opinion that in fact—or can you conceive that it might be true that having that an agreement in which was a general formula of the best person in the world was going to be appointed as the head of the organization would result in as many Americans has in fact come about as a result of the present compromise system?

Robert Zoellick: Maybe more.

Dick Smith: Dick Smith of State Department. It’s great after all these years to have the benefit of your clear reality-based analysis once again.

Robert Zoellick: Thank you.

Dick Smith: My questions relates to the attitude of developing countries toward the World Bank. At the time I was working in the Montreal Protocol Fund in 1990 in London, we ran into a very strong and surprising to me resistance from the developing countries to having a fund managed by the World Bank in the World Bank and we set up a jury-rigged operation where they had an executive committee at the parties in London and it was where they take the bank’s money but they didn’t want the bank managing the fund. Is that still the case or has that attitude changed over the years?

Rich Behar: Hi, Rich Behar, Forbes. Thank you. President Zoellick, I think one of the things you have been credited with accomplishing is bringing a flat budget to the bank on your term and that certainly can’t be easy to put an elephant on the diet and I’m just wondering where there ways to actually still receive money off budget perhaps from directly from shareholders’ trust funds ways to fund things that aren’t funded on budget in order to not skin the organization too much. Was it a flat real budget totally?

Robert Zoellick: Well, for the first question about sort of Germany and Europe, obviously, we could go on a while on this one. So, let me try to deal with it at a macro-level. These are only decisions Europeans can make because they are fundamentally issues of political economy in the future of Europe not just economic decisions. However, I think since you drew the analogy to German Unification, one of the key elements of the success in Germany Unification was that Chancellor Cole and President Bush got ahead of events even though they were moving fast.

And they sketched the direction. We could debate what are the exact elements that need to go into preserving Europe. I think the Germans have, on the one hand a right about the need to get physical consolidation and structural reforms where I think it’s been unfortunate is that whether it’s banking system, whether it’s trying to have assurance of medium-term financing or reforms in places like Spain and Italy that will be a medium-term that the responses have sort of dribbled out in a way that has lost the benefit of getting ahead of the problem.

So, I think history has given Germany a role that isn’t easy because of both Germany’s reluctance to be seen as sort of throwing its weight around but I think the reality is there’s no choice and I think that there’s still a potential solution set but it requires taking steps that don’t just give money away but that would show countries such as Spain and Italy that if they undertake the serious reforms that they will be backed and supported.
And that the process of sort of a day late and a Euro short, unfortunately just adds to the size of the problem and adds to the uncertainty in markets and makes the problem harder. So, it really is kind of a challenging question of sort of political economy strategy and that's I think what we're still going to be seeing tested over the next couple of weeks.

There was a question about the developing countries and sort of—with the role of the bank. That's a very interesting question and it depends somewhat on ministries. You still find some of that attitude in some of the foreign ministries and in some of the environment ministries. If you deal with the financial and economic, and increasingly the prime ministers because of some of the things we've done, they've seen how we can be a very good development partner.

So, it's our challenge to continue to sort of expand that capability. I think we've made some progress over the years but that's why it took a little bit of time on your climate change question. Sometimes, the climate change and negotiations are kind of prisoners of people who are more interested in coming up with a semicolons and a thousand-page text and arguing out rather arcane legal points as opposed to making things happen and we're sort of the blue collar workers of this field.

We're trying to make things happen on the ground and the more we do that, I think the more support that we can build and the encouraging point is again, when I came to be bank—I don't want to overstate this—Jim Wolfen said it made some very good progress on this, the environment committee was still quite suspicious and as I leave the bank, I've got them coming in and wanting us to do more in oceans and various animal species groups that we've tried to help and that's an encouraging side. That's what you want to have. Then, there was the Forbes questions. What was the other one in between?

C. Fred Bergsten: An American …

Robert Zoellick: I will just say this is that certainly—well, first off, while I like to push the international system towards appropriate set of ideas and rationalities as one of you said, I also take a realistic approach and good luck ever making the international system based wholly on some judgment of merit, whatever the heck that is. And that is the reality. I mean, here, let's take a real case, I mean because I think this rather telling.

The President of the EBRD, Thomas Mirow, did a fantastic job. He was the best partner I had on any of these issues. He was innovative, thoughtful, knows Europe, I would go to and basically, his own government sold him down the road for a trade for something else which ended up not working, okay? So, that's the real world, okay.

So, we need to try to move the system and we need to try—to, I'm all for people trying to increase the credentials and performance but the reality is the United States is the largest power in the world and if there's not some assurance, the people will push it to the side because there'll be a thousand reasons why the largest power can't run an organization. So, I'm in full agreement. As you may know because it's something I didn't learn until recently. The US originally wanted the IMF post, but Harry Dexter White ran into some problems with his political background and so, they ended up taking the World Bank as kind of the seconds. So, here I am right? [laughter]
And then on the flat real budget, thank you for noticing that. It did take a lot of work. It is a flat real budget. It’s not so easy when you triple your lending to do at the same budget. We did have some bands but were under the sort of target amount some years as much as it is over the band and my own belief was that having served another organization. The bank was a relatively well-resourced place and if we disciplined our staff and people, we could use the current resource effectively.

And that would help us make the case for at the time that I still have to raise money for IDA for the poorest countries that we’re watching where every dollar goes but you also mentioned we do raise money, for example these climate investment funds or a trust fund and we do manage a lot of trust funds. Those aren’t really so much for expenses although there are some that go into certain projects.

And the trust funds are sensitive point at the bank because on the one hand, people worry that the donor community will be too influential in determining our priorities as opposed to leaving it to our board. On the other hand, it’s not a bad market test. You use trust funds to have a sense of kind of where you’re performing well and the lessons that you can learn and where people are interested in having some additional support and in a practical sense, it sometimes allows you to get a group of countries.

For example, we’ve done some very interesting things in the gender area or rule of law area or social accountability to help deal with corruption and you often will get some of the countries where they—whether the Nordics or the British or the Australians or the Canadians and others who help support this and so, it’s a good way of recognizing that countries can have their own bilateral AID programs but link to the multilateral system and in fact, this is an interesting observation. Something I really didn’t have a full sense until I came to the bank.

The US doesn’t do this very well in part because perhaps AID is big enough to operate on its own but the British DFID, the Australians, the Canadians are far better in sort of leveraging the bank with their AID resources. I think they get more for their money that way and they also frankly I think build some support in the institutions by doing so.

C. Fred Bergsten: Final question over here Alton, and you got a mic right here.

Alton Frank: Thank you very much. Alton Frank of the Councilor on Foreign Relations. Thank you, Fred and thank you Bob. It would be a sad thought to believe that the disappointment in the trade negotiations are the end of the story but are we essentially frozen until after the rolling crisis in Europe and the economic distresses here are solved or are there some things that could be done particularly to exploit trade opportunities beyond those already exploited to help the 79 poorest countries?

Robert Zoellick: First, I have to think Alton. I think Alton was the person who first got me in the Council on Foreign Relations. So, that really dates us all, but there are things one can do and there’s things one can set up, okay. So, let’s take on the do category. Keep in mind, the supposed isolationist withdrawn Republican Congress was the one that insisted that President Obama not only pass the Korean Free Trade Agreement but also the Columbia and Panama Free Trade Agreement. So, when I talked to members in the house, there’s actually a lot of interest in trying to do trade issues. So, there’s something to kind of work with. I just had dinner with Senator Baucus, the chairman of the Finance Committee. He’s always been very good on these issues.
And so, I think there may be a better sort of context up there than people recognize but of course you have to take care of some other politics and stuff. The second point would be in the WTO context, I think there's trade facilitation accord that we've been trying to support could be done and broken out of the WTO and it could be a huge benefit and we could help with the regional development banks to try to finance it.

Third, and here I'll point to some of the work of the Peterson Institute, I think we need to think out of the box now about some other possibilities whether it may be sectorial accords and services or here's an interesting one. It just shows a slightly different mindset. Probably like you, you've been reading in the newspaper about the various anti-dumping or countervailing duty suits or safeguards or whatever with clean energy, okay, and remember, in the 1990s in the Clinton administration, they took the boom of information technology and created an information technology sectorial accord. It was probably a tremendous advance in terms of removing barriers to supply chains and sort of innovation and benefit for consumers.

So, why not flip it? Why not take clean technology as opposed to figure out how many barriers we can get into a fight with each other and say let's make this a sectorial accord for trade levelization? So, I think this is where and I'll look to the Peterson Institute for this, I think there's more that could be done in the Western Hemisphere. The United States now has Free Trade Agreements with the countries that represent 54% of the GDP not and counting the United States.

Well, we can start to integrate some of those Free Trade Agreements. We can actually start to do some things to kind of have sort of more common sourcing like we did in the case of the CAFTA Agreement and this is where you have to be opportunistic. There may be a moment where Brazil also sees its interest in trying to open up its service sector for more competition. Maybe, they see their competition more from China than they do from the United States.

So, if we could start to take some of those Latin American partners and start to reach out to some of the countries where we don't yet have Free Trade in Latin America. So, I think one of the things I would like to encourage that trade community is, when you get stuck in a corner, let's try to think of a slightly different path out and there's a lot of them out there.

C. Fred Bergsten: Well, we're having a conference here on Tuesday to discuss exactly those issues and we've done some work on Green sectorial agreement so, we'll try to respond. Bob, let me say, it's a great thing, I think, for Americans but also for citizens of the world where it turns out there is no conflict between the criteria of nationality requirement and merit in putting someone at the head of an international institution.

And I don't think even those who criticize the US having the job of World Bank president, were critical of your being the World Bank president. So, again, deeply in your debt, I think you validated by comment that you're one of the outstanding operational leaders as well as thought leaders among public servants of this or any other generation. We look forward to the many future contributions, I'm sure, you're going to make.

We thank you all for what you've done these last five years, and we thank you particularly for sharing your thoughts with us today. We're in your debt. Meeting adjourned.