

**TRILATERAL COMMISSION PLENARY MEETING  
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**SESSION 2: A GLOBAL PERSPECTIVE**

**Chair: Joseph S. Nye, Jr.**

**Speaker: Robert B. Zoellick**

CHAIR NYE: I'm not going to take a lot of time introducing Bob Zoellick since he has been a member of the Commission and known to many of you. You have his biography in your packets, but he's had a remarkable distinguished career of serving three presidents and is now basically running the world as head of the World Bank. Bob is really, I think, one of the true statesmen of our period. He has coined a number of memorable phrases, but also a number of memorable policies.

But let me not spend time on praising Bob, but turn right to the business at hand and invite him to say a few words, and then I will ask him a few questions and then we'll throw it open to the floor. Welcome back, Bob.

MR. ZOELLICK: I want to start out with a special thanks to Joe and you all. I appreciated it when Joe contacted me, because I think, as someone who's had a long interest in policy from a global perspective, Joe has contributed so much to our thinking about power, its uses and its limits and its different forms in a different era. In some ways, that's a basis for a few brief comments I thought I'd just start with to set the stage for the conversation.

Perhaps like many of you, I grew up reading the histories and learning the lessons of the creation of an architecture after World War II designed to try to avoid some of the failures of the '20s and the '30s. The Trilateral itself in some ways is an inheritor of that tradition, and, of course, it's always a challenge for institutions as a whole to adjust and to change.

So, when I came to the World Bank Group in 2007, I viewed the leadership challenge as something that looked beyond the immediate crisis we were dealing with, and even looking beyond our mandates for overcoming poverty and supporting growth, to the larger challenge of modernizing multilateralism or making multilateral institutions work under changed circumstances.

Just to give you a sense of what this means to me, over the past few years part of the task has been to reform the World Bank Group to adjust to existing power shifts. This is not only a question of voting shares, but also shared responsibilities, staffing, how we engage clients, a whole different set of factors that affect our approach.

It also has institutional aspects about how to take an institution that, in a sense, was designed in its decision-making structures in one era, and how to make it faster, more flexible, more focused on developing countries as clients. And taking an institution with a staff that has a heavy economic background and trying to make sure that people saw their jobs not just as analyzing problems, but trying to solve problems and recognizing that this had to occur in a political economy context.

Last year, I gave a speech about democratizing development economics. This was partly a prod to what I felt was happening in the Academy on development economics, where in some ways, after the overly grand systemic views of economic theory and development in an earlier period, in my view, people who perhaps had retreated to some very useful work related to controlled experiments had started to get detached from the questions that I was encountering with policymakers. And so I also saw getting away from this as

part of opening up the World Bank as an institution.

We opened up our data sources, our information sources. We're the first multilateral institution that in a sense created a Freedom of Information Act policy. We tried to extend the notion of the Bank that came up in the mid-20th century — a sort of hierarchical era in a way, coming out of World War II and the successes of those structures, and recognize how it has to change in a very different networked environment.

But another part of the challenge of living and working with multilateral institutions is how do you make sure that multilateralism doesn't become an excuse for group inaction? You also had a multilateral structure in the interwar period of the League of Nations, but it wasn't successful and effective. So, in many of the circles in which I work, there's an understandable focus on legitimacy, and legitimacy is sometimes always focused on the nature of participation or relative weights and roles. I always try to emphasize that legitimacy also has to relate to effectiveness and being able to accomplish things. Otherwise, things just become talk shops.

Another idea that I've talked about in recent years is the whole concept of the third world. In some ways, it surprised me that people kept referring to this. Twenty years ago the second world ended, and so at least they should move up one.

But, what was interesting when I talked about ending the use of this as an idea was that there were people in the development community who took offense, because they thought it was against trying to help poor people. The action among many developing countries was: it's about time — we didn't really like to be always considered in the third category, we've got huge diversity among developing countries, and we expect to be treated as such.

In a way, it's part of a larger challenge — and this is why it's interesting to be with Joe — about the challenge of the international system with the rise of emerging markets or emerging powers. You know, much of life is coincidence and serendipity, but — Peter Sutherland just came up — when Pascal Lamy and I were launching the Doha Round in 2001, one certainly had a very full force — even much, much more than what it had been when I had been in government in the '89/'92/'93 period — about the role of emerging markets in making anything significant happen in trade. All I will just say is that whether the topic is climate change, whether the topic is development, today half of global growth now comes from developing countries. And I would argue that also, over time, the same will be true in security. In some ways, it's interesting for all the day-to-day thoughts about what's going on in Libya on the ground. It's also interesting to look at that UN Security Council vote and kind of a sense about what that means for the future of security structures.

This also fits in with something that I tried to address when I represented the United States. In 2005, I gave a speech about China as a responsible stakeholder. Well, in a way, it's the same concept and idea about emerging markets that are benefiting from a system. What say should they have in the system? What responsibilities should they assume in the system?

Just a couple of days ago, I gave a speech at the Peterson Institute of International Economics that was trying to combine some of these concepts about the changing nature of multilateral institutions, the changing role of the Bank, with what's happening in the Middle East and North Africa. Without replicating what was a long speech, just to share one idea, I talked about the fact that some 20 years ago, the World Bank staff used to excise out what they called the C-word, corruption, because it was considered too political, and this was supposed to be an economic institution, but couldn't get involved in politics.

Well, today, dealing with corruption in all its forms is now at the heart of a lot of our work. Some 18 years ago, gender was considered to be too political, and now, just earlier this week, I was at an event about economic empowerment for women in the United States, but also I attended something similar about Afghanistan. Today, gender equality is also at the heart of our work.

What I was trying to draw out of the recent events in the Middle East and North Africa is the role of citizen involvement and social accountability. These might sound like political concepts, but they are also increasingly important for the success of development economics. I took examples from countries with different political systems about how it was critical to engage the public in social delivery and service delivery. Part of my argument was that, even today with Tunisia and Egypt, being able to engage those people in the streets and the squares in my view is going to be important for both the ultimate political and economic success of these countries.

I wanted to introduce my comments this way because I see the Trilateral Commission as, in a sense, a reflection of some of the architecture of the international system at the time. I just wanted to share with you that, again, it's partly the fortuity of life, but I've certainly discovered in the World Bank, but also in other jobs over the past ten or 15 years, that this challenge of changing the architecture — and for me now, as an executive, leading the transformation of an institution that was created mid-20th century with one view of the world and how to adapt it to a G-20 world — how to adapt it to a different set of emerging powers and how to adapt it to whole different types of international economy is one of the interesting aspects that is often lost. Because most of the work that people talk about the World Bank, it's maybe focusing on Millennium Development Goals or domestic currency bond markets or other aspects — but I think this is also an important part of the story.

CHAIR NYE: Well, thank you very much, Bob. Let me just push you on a couple of those points and then we'll throw it open for general discussion.

All right. If you look at the role of the Bank in your image of modernizing multilateralism, how far does the Bank go beyond its development role? For example, you talk in one of your speeches about financial flows, and I think you had a piece in *The Financial Times* about ways to think about the role of the dollar, about international currency, financial balances and so forth. Do you see the Bank and your role as getting into this — I mean this is not the traditional narrowly focused development project.

MR. ZOELLICK: Yes, one of the interesting and indeed intriguing aspects of the Bank is that — I think you're right most people have a view of development in the Bank that's probably about 30 or 40 years out of date — the writ of our activities includes everything from learning from one country or another's experience on education, maternal health, or other Millennium Development Goal issues, to a report that we're issuing next week.

For example, we do an annual *World Development Report*, and one of these covered the challenge of fragile or conflict states: how you integrate security, development, and justice to try to build legitimacy. It's an interesting little sub-example of the kinds of issues we've been focusing on since I came to Bank.

Some of you may remember a book that Paul Collier wrote about “The Bottom Billion.” We have a lot of data driven by looking at the effects of conflict. But it won't surprise many of the people in this room that what I discovered was the security people were in their cell, the development people in their cell, and the economists on their side. How you interconnect them — this is one of the issues that we're looking at.

The range of issues we're looking at goes to climate change, and to the trading system. For all the work that I and others did on traditional barriers to trade, the work that you can do in logistic systems, the work you can do in customs or capacity building can sort of overwhelm those topics, and it certainly runs all the way to the most sophisticated aspects of financial markets.

You asked about some of the comments I was making on the international monetary system. Just in brief, if you think about the international monetary system today, in a sense the evolution of that part of the Bretton Woods system — I was suggesting that there could be still a role for the G7 to set a norm about flexible exchange rates and where they don't intervene unless they all agree, which is a good example of the

recent intervention in Japan. That's again not a rule, but a norm in the system.

Most of the emerging markets are moving towards flexible exchange rates with autonomous monetary policies. But they're not quite there yet, and some of the things that will help them get there are things like developing domestic currency bond markets so they don't have the foreign exchange risks, something that we're actively involved with.

But I was trying to suggest that one could move them towards the ultimate norm, but still recognize — and this is part of the discussion going on at the IMF today — under what conditions, what in a sense are best practices for where you do have intervention in capital markets. What then is the changed role of the IMF in that system? This is a good example of trying to be opportunistic in the multilateral system. Take the SDR, special drawing right: could you use the SDR as a form where you take the current participants, the euro, dollar, pound, yen, and work with the Chinese to say, look, you should eventually be part of this, but to be part of it, you're going to have to internationalize your currency and move to open a capital account? In some ways, it draws on the experience we had bringing China into the WTO with a rules-based system.

What is little known about the Bank is that because we're called Bank, most people understandably think our main role is putting out money. In reality, where we're most effective is where we combine knowledge and learning and experience — increasingly, again, this is a south-south issue, as well as the traditional north-south. Frankly, there are some interesting south-north lessons with various types of finance, and we have private sector investments as well on the government side, and a quite sophisticated financial suite of tools with which we're trying to build markets and institutions and capacity.

Since the financial crisis hit its full fury in the summer of 2008, we've done almost \$170 billion worth of commitments. Not small, but compared to the overall market, it's still quite modest. The challenge is how we can put our effort to work in a way that is bigger than the individual project that you leverage.

In that sense, our reach has actually increased, and now the challenge actually is using the G20 as people think about networks like the G20. One of my arguments is, it would be a mistake to create big secretariats and heavy bureaucracies. You ought to use the existing institutions as part of that system.

CHAIR NYE: Well, we're going to actually delve into that tomorrow morning, but let me push you on another point that we'll deal with tomorrow and get your views about it.

You mentioned the Middle East and the recent events in the Middle East. Everybody is quite encouraged about the prospect or potential for seeing democracy in places like Tunisia and Egypt until they start looking at the jobless rate and then they say what happens to that spirit of Tahrir Square when people have spent months and years of unemployment as bad as it was before. What can the World Bank do about that?

MR. ZOELLICK: Well, to even sharpen it, our estimates are that over the next ten years the countries in the Middle East and North Africa will have to create some 40 million jobs, about 4 million a year just to hold even, and already you have very high unemployment rates for young people and even higher for women in many countries.

This is a good example of where, as you think about some of the political economy dimensions of issues, it's worthwhile to consider slightly different approaches. What I mean by this is, in my experience — and I would have been part of this, too, in a situation like this — people who would be approaching this from the foreign policy or political side or security side would say, “for God's sake, let's get those people in jobs.” Economists would generally say, “Oh, be careful, make-work jobs are very expensive and don't lead to anything. We don't want to take that path.”

My own view is: we now have some very interesting experience from about 40 different countries around the world about how you can design short-term job programs that can create some sense of hope and

opportunity and production without interfering with the longer-term job creation. But, of course, it means that at the same time as you're taking short-term steps you need to combine them with the medium and long-term idea.

For example, in Liberia or in Afghanistan, they've designed different types of programs. Some of them might be food for work as opposed to the cash for work programs. If you're going to do cash, you have to be very careful about what its effect would be on the wage rate of a private sector development.

In a sense, the traditional economics answer is to wait until you've created the right macroeconomic environment, but I don't think that will work. On the other hand, just throwing money at it won't work either. This is again where you have to connect the issue with some of the other issues about political and citizen involvement.

Keep in mind that the poor fruit vendor, Bouazizi, who set himself on fire in Tunisia was so frustrated because he had licensing and harassment and a sense of over-regulation and red tape and ultimately a loss of respect and dignity. In many situations like this, removing some of the red tape to allow the informal economy and entrepreneurs to start is another combined point.

Having said that, looking towards the long-term challenge, just to give you a sense of what the system is up against, one data point that was shared with me by Howard Pack, a former professor of mine, was very striking. He said, if you take South Korea: South Korea has 60 million people, Egypt has 80 million people, and South Korea exports more manufacturing goods in a week than Egypt does in a year.

There's clearly going to have to be aspects about how you try to change the investment climate in the region, and we've also learned about ways in which a combination of direct investment, licensing, and other things can bring in technology. This is going to be part of the challenge, and this is what I think will be discussed at our Spring Meetings next week. So far, and this won't surprise many people in this audience, I've had a lot of calls from foreign ministers. Foreign ministers think this is a pretty big issue, maybe even revolutionary. Finance ministers, not too much to be seen, not too eager about getting into this one. And so part of what we're going to try to do in the Spring Meetings is join in on these types of issues.

Just to give you one other one of example: safety net programs. Frankly, what we saw the Egyptians start to do is what they've done in the past — increase wages, increase broad-based subsidies, blow a hole in the budget. It won't work.

But we now have examples from many developing countries, Mexico, Brazil and others, of targeted effective safety net programs. In the case of Mexico, they have this Oportunidades Program, a conditional cash transfer program, that is about a half of 1 percent of GDP.

What is also new is, I think, that it would be harder if it were a case of the U.S. or Europe or Japan saying: "learn from us." But we can show what is done in other developing countries. I hope it'll increase the acceptability of these kinds of safety net programs.

CHAIR NYE: Let me push you on one more question about something you said and then open it up to the audience.

You mentioned corruption. The World Bank over the years has done some very good staff work on corruption, but your predecessor got into quite difficult political problems by making corruption a priority and if you look at many of the clients of the bank, of the recipients of the knowledge and advice if not the funds, many of them have extraordinarily corrupt governments, to be frank about it. I can say that, you can't.

What's your strategy for the Bank of dealing with corruption when so much of your clientele has very corrupt governments and when your predecessor got in quite deep political hot water by pushing that issue?

MR. ZOELLICK: Yes, well, let me start by how at least I've tried to approach this. You have to work at

different levels, and one level is within your own organization. You have a lot of people in this audience who have been in public service, and, in the case of the U.S., some people might remember when inspectors general were created and the sensitivity that created. Anytime you create something like that in an organization and start to empower it, you have to manage it with particular care, and some of this may sound boring to a policy group, but in executive life, the wiring diagram's very important.

When I came in, fortunately, Paul Volcker had been asked to actually do a study of the things that our Internal Inspection Office Team did in investigations — whom they would go to, when they'd be released, how they'd be released, the connection with the Board, the connection with the client, the connection with the other regions. To be honest, I literally would get documents when I first came in, it was a bad enough week as it was, that would be 50 or 60 pages in a sealed envelope saying only you can read this and you can't share it with anybody. Well, it's a little hard as a CEO. You need to have a system to be able to operationalize that, so in that sense, the nuts and bolts do matter.

Another part of it though is anytime when you start this in an institution, it's also important how it's done, the tonality, because it raises anxieties just as it would with inspectors general, and there was a legacy of this. As is often the case, there are going to be a zillion different perspectives and stories.

I was able to bring in Leonard McCarthy, who ran the Scorpions Unit in South Africa with a good reputation, integrity, a good leader. Then, frankly, combined with some of these systemic changes, we were able to emphasize that this has to be a core part of our culture, and that stealing from the poor and allowing breakdowns in fiduciary aspects is not going to be accepted. And so we incorporated that through our basic performance.

But that is far from enough, so we developed a government and anti-corruption strategy. One other thing that Paul Volcker identified, which I very much shared, as opposed to just hunting people down, what lessons can we learn to develop preventive programs? In areas like roads, and frankly this is true whether it's the United States or Japan or Europe as much as a developing country, they tend to be prone to corruption and cartels. What red flags can you use? What different measures can you have to try to prevent these things? And we're trying to build that into the system.

But then going beyond it, this actually brings me back to the point about civil society engagement. One of the points I actually referenced in the speech, because it's a simple case but can be replicated on a much bigger scale, was a project in Uganda, an education project, that took the simple step of posting on the schoolhouse door the textbooks and the teachers that were suppose to show up, so you were engaging the civil society. People could say, "Oh, we were supposed to get 100 textbooks. We only got 40. We were supposed to have two teachers show up here, but there's only one." There are actually lots of ways now with social media and others you can engage them.

What I'm actually pleased about now is where we can also go on offense. We created a stolen asset recovery unit to work with countries, and we're actually working with Tunisia now, and others. Frankly, some developed countries didn't make it so easy to be able to recover the money. When people are corrupt, there's often corruption on both sides.

Another side of it is — and again, some of this just takes labor — we worked out a deal with all the other multilateral development banks that when we sanction one, we'll sanction all. You steal from one, you steal from all. We've now created an international corruption hunters network, and it's quite fascinating. This reaches out to a different part of "development communities" — prosecutors, investigators, many of whom are courageous people. In a sense, we're trying to create support networks and other aspects.

You'll see that in the *World Development Report* on Conflict, Security, and Development, we are bringing out next week, we talk about the critical role of police and law enforcement and judicial functions.

One thing I found kind of fascinating was that you can find in the international system a place to help you build an army if you're a fragile state, and the UN and others help provide that. You really couldn't find a place to build police forces, and this is something I encountered in the U.S. Government. Everybody would go after the Italian Carabinieri. They're the one model that people would have, and even now they're a small part of the UN peacekeeping operation that does this. You still don't have that in the international system.

I'm also suggesting that if you look at the challenges of Central America today, with narcotics trafficking and others, you've got to build stronger judicial systems. I think the Bank has done some work in this area, but can do more.

So I see it as a continuum, Joe, about everything from the integrity of our own operations to how they run, the culture you create, but that won't be enough. Now, will this eradicate corruption? No, but I invite people to look around the U.S. and Europe and Japan a little bit, too. That doesn't mean we should accept it. It means we need to keep pushing for systemic change that makes it harder and it makes it less acceptable.

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