

Rethinking U.S. Security: *Navigating a World in Transition*

Economics and Security

A Conversation with The Honorable Robert Zoellick
President, World Bank

Moderator:

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MR. RICHARD FONTAINE: Ladies and gentlemen, it's an honor to introduce the two individuals who will make up the next session in our program today. I don't need to tell anyone in this room just how interlinked economics and security have become. A glance of the headlines easily demonstrates that currency fluctuations, debt crises, budgetary austerity, and trade flows are intimately linked with defense, stability, and broader considerations of national security.

This is something that the two men who will speak next understand intimately. Each is active at the very center of economics and strategy. It's a high honor to introduce Robert Zoellick, a truly great public servant, who serves as the 11th president of the World Bank. Prior to joining the bank, he served as vice chairman of Goldman Sachs, deputy secretary of state, U.S. trade representative, and counselor to the secretary of Treasury. I could go on, but you get the vivid picture here.

He'll be joining conversation by Sebastian Mallaby, one of the world's top thinkers and writers on international economics. Director of the Greenberg Center for Geoeconomic Studies at the Council on Foreign Relations, Sebastian's also a contributing editor for the Financial Times and the author of several very successful books. It's now my privilege to turn things over to Sebastian, who will kick off what will be a fascinating conversation with President Zoellick. Thank you.

MR. SEBASTIAN MALLABY: Great, well, let's get started. I'm going to ask you a pretty obvious question first. We all know that the world's been changed by the rise of the middle income countries, the BRICs and so forth. So for the last period, you've been focused on running a global institution that has to respond to that power shift. How have you done it at the World Bank?

MR. ROBERT ZOELLICK: Well, let me start, Sebastian, by just thanking all of you. This is a tremendous crowd for coming. And I'm delighted that I have an opportunity to be here with Nate Fick, who, if any of you haven't read it, I think has written one of the best books that I've read in the past couple of years about *One Bullet Away*, but also Richard, who's a colleague I've known for many years. And one reason I wanted to come to this is that I think the Center's been doing some tremendous work, and I certainly want to show my support for the efforts going forward. And it's a pleasure to be with Sebastian, who I've known for many, many years. I think even before I became U.S. trade representative, when he was working for the Post. So we've – we've had an opportunity to engage on many topics over the years and he's a very tremendous author in his own right.

So in terms of shifting power, I think, just to give people a little reference point, in the past five years, some two thirds of global growth have come from developing countries. And as recently as the '90s, that would have been in the 20s somewhere.

So what I've observed, really going back to the time I started as U.S. trade representative in 2001, to the other post, is in what is a microsecond in historical terms, 10 or 11 years, you've had an extremely rapid shift in the role of developing countries, whether it's trade and investment, currency and exchange rates, commodity prices, development, and I would argue also increasingly security issues.

And I think for the World Bank, you know, part of the recognition is that countries that might have been seen as dependencies or charity cases are now significant economic influences in their own right. There's obviously huge diversity in that world, so the core answer to your question, Sebastian, is you have to customize for the client. And some clients are post-conflict state. So some of the work that we've done with the Center on the combination of security and economics and governance, some are the rising powers of the future, and so the issues that the World Bank as a partner has to deal with are much more than financing. In part, one of the big shifts is the knowledge and experience and the learning for the development models is fast coming from other emerging market countries. And so the traditional north-south transfer of experience is fast moving at the south-south and increasingly south-north.

So as an institution, this means that we need to be faster, more flexible, and sort of more operationally cognizant of the changes in that international environment. And just to give you a real sense of that today, while the emerging markets have been the drivers of global growth, over the past five years, we just recently announced – had one of our regular reports go out to point out that the world is an interdependent place. And so the events in Europe and the slowdown in the United States and others are affecting those countries, too, so part of our caution today is the types of things they have to repair for – for a world that remains pretty precarious and uncertain.

MR. MALLABY: But I guess behind what I'm asking is that sometimes the World Bank has described itself, as the mission statement, our goal is a world free of poverty. But the poverty fight is something that NGOs engage in and all kinds of people engage in. A particular skill of World Bank, in my view, and I think also in yours, is that it combines – it's sort of the executive secretariat for globalization. You have a lot of countries represented there through the board structure which has constituencies. It's a sort of weighted voting system.

It's not like the P5 at the U.N., where some have a veto and you're either in or out of the P5, so it's kind of binary. It's more of a system that adapts to the rise of powers and can reflect the rise of China. And then during the period when I studied the World Bank under Jim Wolfensohn, you could already see China and India making coalitions on the board to change bank policy, for example on dams and infrastructure. But my sense is that you've taken this quite a lot further in being responsive to rising powers, maybe in the people you've hired in senior positions and maybe in other ways, too.

MR. ZOELLICK: Well, let me, particularly for this audience, try to put this in a slightly broader strategic context, and then we can drill down wherever you wish.

In part because I see things from a slightly historical perspective, when I start and look at institutions like the World Bank group or the IMF or the WTO, I go back to their origins and recognize that these institutions, in their earliest form, were created in 1944, as World War II was still raging, and you had the allied powers, principally the United States and Great Britain, try to reflect on what were, in their view, the economic causes of World War II. Now, there're many factors, but it showed the economic security link.

And in Bretton Woods, New Hampshire, they were asking about issues such as currency and exchange rate policy, and beggar-thy-neighbor policies, trade and protectionism, reconstruction after wars, in this case, the failures of the Versailles peace. And if you ask yourself whether those topics remain current, they certainly do. And so from a historical perspective, my view is these institutions that were created 70 years ago continue to have an agenda where they're the thin tissue that connects the sovereign states which are still the principal actors in the system, but they obviously have to be vastly modernized in overhauled for changes in private capital flows, in power shifts, and others.

So I think this is also relevant because I would argue that the security world may actually be still a few steps behind. I think these trends that are driving the world of economics are certainly going to be and are being seen in the broader security agenda. Then the question is how will the system adapt to them. But from – in the economic area, the challenge is how do we modernize multilateralism for that system. And let me just give you an example of a strategic choice that this drives.

When I came to the bank, in the middle of 2007, there was a school of thought and this was driven primarily by solely economic perspective that said the bank should just focus on the very poorest countries. In a world of limited resource allocation, should just be the poor, you've got the middle income countries, and they should be off on their own.

If you take the strategic structural perspective that I mentioned, this would be a mistake of huge proportions because just at the time that you're getting middle income countries having greater influence in the system, you'd been pushing them out of your multilateral structures. And so the challenge is rather to take the middle income countries, which, by the way, still are the home of 70 percent of the people living under \$2 a day. So on a simple poverty and growth issue, you've got a big agenda, but also to say let's understand the problems and challenges that they face, so we can try to help them.

So practical example, we just did a report with China, the China 2030 report, trying to look at how China's growth model will have to change, but equally so, if you're going to

try to deal with any issue – climate change, biodiversity, trading system, changes in growth in Africa that may be related to investment from China, you’re going to want these middle income countries part of the system.

So in some ways, as some of you know, in the context of China, when I was at the State Department the second time, I gave a speech talking about responsible stakeholder. It’s a similar logic. In other words, how do you build the responsibility in stakeholders in the system? And the benefit of the multilateral institutions, going to your point, Sebastian, is that if you don’t handle it right, you can’t break into what I’ll call the G77 U.N. politics of north and south. But because the bank has a different culture and a different institutional history, you can also help overcome those barriers.

And just to give you an example, I met with one of our executive directors today, one of the most effective, from a mid-sized developed country, and I was very much complementing her because she’s quite skilled at trying to work across the different categories and sort of bring people together. And that’s partly the job of the executive as well. So in that sense, I think our goal is still to try to overcome poverty, but it’s also to do so in a healthy international system that supports growth and has a sense of sort of mutual advantage for all the parties.

MR. MALLABY: So there’s been a bit of a theme in your career straddling economics and strategy throughout and I think there are two clear episodes where in particular you’ve done that in a way that has responded to this power shift that we’re all talking about. So when is this World Bank, period in the last five years? The previous period was I think the Doha Development Round, which you were instrumental in launching. It wasn’t a mistake that it was called “development” because development round was going to appeal to these rising powers. Today, it would be called the BRIC round or something, but back in 2001, you could still call it the development round. So I guess the question is – and particularly for this audience –

MR. ZOELLICK: Just to be fair, but not to be pedantic, some people think that the events at the end of the Cold War were also developing a new security and economic system. (Laughter.) German unification probably fit within that paradigm somewhere. (Laughter.)

MR. MALLABY: Okay, I get it. So you’re saying I left out yet a whole further dimension of your rich history. Sorry. But what I’m kind of trying to look at in terms of the future is if you’ve made it your specialty to think about how you adapt global architecture to these power shifts, is it possible to do a World Bank type of job, a Doha Trade Round type of job on the security architecture? What would that actually mean? How would the security architecture – NATO, et cetera – be adapted to the fact of rising powers?

MR. ZOELLICK: That is an excellent question for research at this Center. (Laughter.) No, I've thought about this, but I haven't gotten very far at it. I'll explain, is that part of what – you know, I'm a bit of an institutionalist. So –actually going back to the point about German unification, part of it was to unify Germany within NATO and European structures, and then how to adapt and overhaul those structures. So I guess I would start by saying, take some of the existing institutions, and try to see how they can be adapted.

I think in a sense the economic realm is advantaged because you have these Bretton Wood structures – IMF, World Bank, WTO – that created a possibility to find win-win and sort of mutual benefits. And there's been others that reflected the regional agenda. So again, it's an interesting example. You know, APEC was created in 1989, just as the Cold War was ending, and at least from the U.S. point of view, at the time, since I was at the State Department, part of the logic was that U.S. economic relations in the Asia-Pacific would be as important for the future as our security relations. And we needed to complement the alliance relationship with the broader economic relationship.

Now, people can argue the degree to what that's been carried out successfully, but it's trying to adapt the institutional structure. And so what I think in the near term, what it probably depends most on, Sebastian, would be some of the leading security powers, of which the United States is the primary one, whether they could reach out to some of these emerging countries and engage them about how the interaction could be of broader interests to regional and global security. But let me give – so in other words, it's probably going to be done bilateral or sort of coalition at an early stage.

So you have some interesting examples. I mean, you have Brazil providing a peacekeeping role in Haiti, ensuring a broader issue of development. You see some of those in the peacekeeping U.N. area, and that's where a number of the developing countries have been more used to operating.

But I think, you know, try to push the edge of the envelope; I gave a speech last week at the Inter-American Dialogue. And I revived an idea that my friend Bernie Aronson had mentioned about Brazil wants to play a larger role on the political and security stage, as well as economic. Brazil would like to be a member of the U.N. Security Council.

I personally don't think that the pattern of G77, north-south politics in the past will get it where it wants to go. But if Brazil, for example, voluntarily gave its right for uranium enrichment and used that in a way to help shape the discussions with Iran, I think this would propel Brazil to a whole different place in global security today and might even get people to say, well, this is a country that is using its sort of capabilities to make a more secure world and maybe would be a good U.N. Security Council partner.

And keep in mind, there were earlier versions of this. When I was working with Baker, in '91-'92, we actually – there was a point where Argentina and Brazil were developing nuclear programs and we got them both to sort of stand down from those. So these things are possible. I'm not saying this is going to happen overnight, but if you ask what issues, you know, should – could the U.S. or others be working on, that would be one.

Obviously the world is very focused on Syria today. The role that Turkey plays in Syria – discussions of safe zones, other issues – will be very, very important.

So I think at this stage it would probably have to be done through kind of the U.S. and maybe Europe and others, but Europe somewhat preoccupied, on trying to encourage some of the rising powers to play a role, but this isn't just kind of instructing people, it's also having then the dialogue coming.

So let me give you – let me take this one step further because it is very timely. You know, I've talked with some of the very senior Turkish leaders about Syria. And understandably, they're concerned about fragmentation in Syria, sectarian conflict between Sunnis and Shias, but they're also concerned, obviously, about Kurds and what that could do to their own security.

I would at least say there's a conversation to be had to say if you continue with the policies you've got, that's a very valid worry. So this time, it's not the United States saying, no, you know, that just a pipe dream. That's a very valid concern. But if we continue to have the degradation that we have, won't that become more likely?

So these are the types of dialogues that you would want to be having with kind of the rising security powers – it's party on their regional position. And my guess is – I don't want to overstate this – but governmental systems take a while to change, you know. So we've got NATO and we've got some other alliance relationships. These are the types of things that people would have to be a little bit creative and out of the box in trying to develop.

MR. MALLABY: Okay, well, there's a lot of talent in the room, so I think we should go to Q&A. If anyone's got a question, please just put your hand out and I will call on you. I will make a comment while we're waiting, which is that it does seem to me that the difference between the economic realm and the security realm is that in the economic realm, you kind of have all these institutions where these emerging powers are already members, so you can just promote them a little bit within that structure. So in the trade negotiations realm, Brazil was already a member, so you just had to bring them into the top table a bit more. In the World Bank, all these countries are already there, so you just have to bring them into the conversation more.

The difference, as I hear you, is that in the security realm, there are some times where you want to involve India more, so maybe peacekeeping the right to do that, maybe Brazil, too. Maybe on Brazil is also the nuclear issue, as you said. So it's got to be more creative in finding the institutional setting that allows you to partner with these emerging powers creatively.

MR. ZOELLICK: Well, it's a combination. I mean, you know, there are – there are bodies that – you know – so again, if we think about the Asia-Pacific, the sort of ASEAN post-ministerial dialogue, the ARF, the other, these – even the recent Shangri-La dialogue – these become mechanisms that you can use. And I don't want to be – (inaudible) – and overstated, but let's take another issue. So issues about, you know, conflict in the sea area. Well, you know, this is something where the ASEAN countries and Australia and the United States, and China, and others have interests ultimately in freedom of navigation, avoiding conflict, so can you use these forums to kind of encourage and create a context?

You know, I'd like to think you could, so – but at the same time, I guess what I say, I think the system is at a stage in development that it's going to require intensive bilateral work to support what gets done in those. But as you know, that's not all that different in economics. I mean, you don't – when you have the launch of the Doha Round, it doesn't just happen, you know, like, Athena springing from the head, it's a question of also all the bilateral work that goes along the way.

MR. MALLABY: Okay, a question right here. Hi, Mitzi. I think a microphone is coming.

MR. ZOELLICK: Not to use a Greek analogy in the sense of time. (Laughter.)

Q: I'm Mitzi Wertheim with the Naval Postgraduate School. I've been struggling with a new definition for national security, which, as best as I can tell is a whole-of-government solution. But selling the ideas means we have to have sort of a quick, concise, clear, concise, compelling way to tell the story, because we need to move the thinking of a great many people, who used to think national security meant dropping bombs and killing people and that sort of would win that game, do you have any thoughts on how to describe the new national security – I hate the word “paradigms,” I won't call it that.

MR. MALLABY: I mean just – thanks, Mitzi. I think, just to piggyback on that. It does strike me that both secretaries Gates and Clinton have talked separately about the interactions between economics and national security, but there's a risk in this stuff that it does become quite abstract.

MR. ZOELLICK: Yes.

MR. MALLABY: And I think some concrete deliverables would help to see – make people see what it really means.

MR. ZOELLICK: Well, it's coincidental. I've been trying to give some thought to this, in part because I'm going to be delivering a lecture at AASS in July and I'm trying to frame some of this economics and security and I was thinking about doing some other writing on it. But I tend to –

MR. MALLABY: Sorry.

MR. ZOELLICK: – use historical frameworks, okay. But let's – I think the best that I can come up with for now is you do need a combination of specific, but then put it in a larger framework. So let me give you a very specific one now that I've been using and it came from Bob Carr, the Australian foreign minister. He was in town, about four or five weeks ago, and I asked him what's his major message. Some of you know Bob Carr. He's a very successful premier of New South Wales, very pro-American. I think I was passing the Millard Fillmore Room – I think he's the head of the Chester Arthur Society in Australia, where they – (laughter) – study obscure facts in American history. (Laughter.)

And so I asked Bob. I said, so what's your burning message. He said, the United States is one budget deal away from restoring its global preeminence.

MR. MALLABY: That's good.

MR. ZOELLICK: And I thought that was a very powerful line. And I've used it with members of Congress and others. And it has a corollary, which is he said, and be aware, there's other parties in the Asia-Pacific that are saying United States is not going to be able to handle this and you better pay close attention to what we have to say. So that's a pretty good example.

And that – I found that that works with elected politicians and others as we try to face the budget issue. But I think there's a broader part, and this is what I'm sort of playing with for the lecture, which is that – and this may be a little bit unique to the U.S. foreign policy and security establishment. If you actually go back and look at sort of U.S. foreign policy history, there was a very strong economic strain. I mean we threw the tea in the harbor. We had embargoes. There you had dollar diplomacy. You had – I mean, you know, freedom of navigation and the seas, open door policy. You really got a heck of a run there, and even in the supposed periods of the '20s and '30s, you know, you have some of the debt plans in Europe that were – in a sense, we probably outsourced this, and JPMorgan handler in Mexico, a really long strain.

After World War II, and I think this is probably because of the fear of nuclear Armageddon and sort of the idea of having to have standing military forces, including overseas – the United States didn't really have standing military forces and certainly not overseas – that there was a predominance of kind of the military security thing.

And if you look at the career patterns of a lot of the people that kind of were the leaders in the system, I mean, look, we even had outsource. We brought in Henry Kissinger and Zbigniew Brzezinski, so people of that tradition – (laughter) – you know, to come in to do it. (Laughter.) But the serious point is, going back to this point about the Bretton Woods institutions, there's a whole other strain, even in this period, where the logic was what were the causes of World War II and what were the economic dimensions.

And I don't mean to be a Marxist economic determinist here, but I'm saying this is a key part of sort of the economics. And so the Marshall Plan, you know, the international trading system, the reconstruction of broken states, and there's a pragmatism in the United States idea about how you sort of link these together. So it may be just – and let's even get more specific. You know, if oil hadn't been down to \$15 a barrel in the mid-'80s, would the Soviet Unions have collapsed?

You know, if you go back and you look at the Suez crisis and when Eisenhower basically threatens the pound to get the British out – so you got some very telling specific examples.

MR. MALLABY: But Bob, so just to refine this. So in some sense, that seems to me this makes it harder to define what we're talking about today because if people start by saying, gee, economics is very important. This is a new factor in the security environment. And that's just historically untrue, as you've described. Economics has been important for a very long time. And even if you think about, okay, so the cliché, the Cold War ended, Japan and Germany won. That was the sort of the sense that the economic powers emerging out of the 1990 period were the real winners from a security conflict. So the question is, today, what's different? What – when we talk about economics and statecraft, what do we really mean? Is it because the rise of state-owned companies is different, is it government ownership of huge amounts of assets in the form of Central Bank reserves or in the form oil reserves? What's changing there?

MR. ZOELLICK: Well, there actually – there's a literature on this that goes back, you know, at least to Alexander Hamilton and others, that – and people who have taken more of a mercantilist view, that talk about the relation of economic to power and two centuries ago, that was often related to geography, population, minerals, things like that. I think what has changed in the international system is it's now it's also related to powers of

innovation and information technology and other attributes, which do allow smaller countries to perhaps be much more influential, than they would have been 200 year ago.

So I think part of it is the factor, those dimensions of sort of power and influence, but then, I think the other interesting thing, if you are a believer of market economics, it also allows some creation of values. So it's not just trying to see economic sinews of a military power, as you were in a mercantilist system, but trying to create open societies, trying to create societies where the individuals are very important component. So these are all strains of it, but then where you have to add to it is kind of what is the framework still that safeguards such an international system, and here you do come back to some traditional forces of military power. So people can't take those for granted in the system, but they – in my view, they don't survive on their own. I mean, or in a practical way, what happens to the defense budget if you don't have a very good economy or what happens if you have sequestration.

And so I think part of the challenge is to integrate these in some fashion, but where I have kind of a optimistic view about the United States is that we have very deep traditions of doing it. And so coming – and in some ways, coming back to the question, it also relates even to institutions like the World Bank. So when I partly talk about the World Bank with members of Congress, I talk about the work that we're doing in Afghanistan, and not only with sort of the economics that relate to the security, but frankly, we have tried to prod the United States government to think of an economic transition strategy that goes with the security transition strategy. Or frankly, if you try to think about security in your hemisphere, well, you know, the healthy, successful Mexico is going to be very important, whether it'd be narcotics or immigration or other issues.

So one of the interconnecting ideas is how do you deploy these institutions in a way that kind of further the systemic objectives. Let's take another big one. You know, so we're all talking about what's going on in Europe. What I've said to European audiences is not only is this I important for the economics of Europe, but this is going to be critically important for Europe's future influence in the world. And I sit at G20 meetings now, where the developing countries look upon the European officials with some combination of frustration, confusion, and disdain.

Well, in my experience in diplomacy, that's not a good starting point for being influential in the world. (Laughter.) And so these are – what also makes it interesting, what also makes it very important is start – go back to where we started, Sebastian. You've got a system influx in sort of, not only the traditional, you know, to see these rising powers, but it's much broader than that.

And so the question is how can we adjust the system – and not to be parochial, but the United States is still a keystone of that system. So whether it's alliance systems,

whether it's multilateral institutions, whether it's trading system, and to be very simple, if the United States doesn't get its act cleaned up at home, it's not going to be able to play that role abroad. If it does get its act played up at home, it can actually be quite influential at a time of flux.

MR. MALLABY: Another question, right here.

Q: Good afternoon. Richard Harris from Momentum Private Equity Communications. And I just wanted to extrapolate on a point that you two have made. Over the last 150 years, you've seen sort of a union of economic power and national security power, and now it's going to use the two most obvious examples, Great Britain in the 19th century, up until World War I, and the United States after that. What happens when you have a country like China, whose economic pass key is growing exponentially? And how does that portend for the national security structure in Asia, especially as it is not a liberal democracy as the previous two preponderant powers were?

MR. ZOELLICK: Yes, great question. Well, first off, if you're the existing power, like the United States, it'd be important to try to keep the innovation and the dynamism – (inaudible) – the jerk on them. But secondly, you know, where can you find mutual interest with China in the security space, okay?

And let's just – let me start out with this. Energy security, that's of certain importance to China and the United States and others. If you look at the commodity imports of China, freedom of the seas, and being able to move goods in and out, and that's a very important issue. Islamic radicalism, if you're worried about the western parts of China, okay? Stability in Pakistan and Afghanistan, okay? So there really – and that is not even talking about sort of environmental issues and other questions. There couldn't be a very good agenda of overlapping kind of national interests.

And to take this one more step, see, when I was deputy secretary and I started what was the strategic dialogue not done with 40 people in a room and cameras, but actually sort of a quiet discussion, part of the challenge with my then counterpart Dai Bingguo was to stretch people's thinking of national interests to a systemic interest, and trying to understand the mutuality of these issues. And you're not going to get it all the time, but we don't get it all the time with Europe or Canada or, you know, Mexico. So – but it's that exercise.

But I think the one other inhibition that I see in this in the case of China – and I don't have a very good answer for this, but I just identify the problem – on the economic side with China, there's a pretty well-developed network of relationships over 30 years. And you'll actually find division of views within China just as you will in the United States on structural reforms versus (changing ?) responses and others. And we could blow it, but we should be able to make that work more effectively.

On the military and security side, I think there is a structural limitation in that the People's Liberation Army reports to the Central Military Commission, and so I and others have tried to start military to military dialogues, and that's a good thing, but they tend to be a little bit formulaic, and what we really need is a political military dialogue, as you would have in NATO or other context, and that's not so easy to have in the Chinese system because at least my sense is that the CMC does not necessarily reflect what you would call a national security structure, okay?

So objectively, I would suggest that one of the discussions, the topics for the Chinese is how could we build – how could we sort of engage in that, and in the meantime, you try to work with other channels to try to focus on some of these sort of combined mutual interests.

Now, you know, does that mean – you still have different political systems, but you know, I think there's a – there're different degrees here. You could still have an effective international system with people of different sort of political systems. That's certainly better than conflict or breaking into regional blocks or sort of other aspects. So that'd be how I have it start that.

MR. MALLABY: Another one. Let's go over there.

Q: We heard this morning –

MR. MALLABY: Just – mike coming up, yes.

Q: We heard this morning that we're moving into a world in which – I'm Doug Samuelson (sp). I run a small consulting company here in the area. Thank you.

We heard this morning that we're moving into a world where traditional projection of power and traditional ways by nations is becoming somewhat less the mode. We are in a more of a network world and we project influence and we try to maintain centrality in growing networks. And obviously, there are challenges in doing that. But at least, it's possible to think about networking and projecting influence in the national security sphere and in private enterprise and economics. But in terms of the kinds of economic instruments that the World Bank handles, how would you – what kind of instruments could one use to extend economic influence to other parties than nations?

MR. ZOELLICK: We're the consummate network player. I mean that's part of the modernization. We have a private sector arm. I have – that makes investments in private sector companies. One of the things I created was an asset management company that actually links sovereign funds and wealth funds and pension funds using our sort of

equity investment channels. Just yesterday, our board approved sort of a small venture that I've been trying to support, which is to provide some funding support to some civil society groups that could help us with social accountability in the delivery of services.

And we are trying to further through our own institutions and others transparency, open data, open information initiatives. So kind of – in fact, your question goes to the heart of one of my strategic aims at the bank which was, as opposed to having development be a top down elite model, where, you know, Professor X from a university says, here's the three things that developing countries need, that we should work with countries as clients and the client is, of course, primarily the government, but then to understand the political authorizing environment, you need to work with the full aspect of society: the private sector, the civil society, and others, and better understand their problems.

So when we deal with the food price crisis, you know, we reached out U.N. agencies, regional development banks, civil society groups, a host of – frankly, this gets a little obscure, but in economics world, the agriculture community, the humanitarian food community, and the nutrition community cannot connect with one another. So we partly use this process to help connect those communities with one another.

So the exact thing that you're seeing described in the security world, I actually – if you think about market economy, this is actually much more developed in the market world. I thought you're going to take the question in a different direction and sort of ask whether sort of the balance between traditional sort of power and security and sort of networks relationships. And my short answer is going to be kind of that's what alliances are about.

MR. MALLABY: I see one right over there energetically raising his hand. This is the last question. Mike is just coming.

Q: Thank you, sir. (Inaudible) – U.S. Air Force. This is a question about China as well. I guess specifically getting your thoughts about the recent move by Beijing to lower the interest rates in response, I guess, in response to fears about a slowdown in the Chinese economy, one, if in fact there is a downturn, what is that – or how does that bode for the model that Beijing – the economic model that Beijing has been following? I guess sort of a managed capitalism type model.

And two, from a security standpoint, if – again, if it is a slowdown or downturn in their coming economic fortunes, what impact if any does that have on their security posture in the Pacific area vis-à-vis their neighbors and especially the United States with this kind of – with the U.S. shift to the Pacific now. Thank you.



MR. ZOELLICK: On your first question, China is slowing down. I'm of the view that it will have a bumpy but not a hard landing. And – but what I would point you to more is to watch how they use the very considerable resources they have to sort of deal with the slowdown in a way that addresses the real question they're going to face, which is the structural changes they need to make in the economy. And I mentioned – I think I referenced this China 2030 report, just to spend a minute on this. I think it was very – I found it very impressive that China's grown at 10 percent a year for 30 years, but some figures in Chinese officialdom, and this is something that I worked all the way up to President Hu and Xi Jinping and Li Kuo Chang (ph), realized they had to change the structure of their growth model, moving it from sort of export-led and investment-led to greater domestic demand and consumption.

And this is – this is not an easy thing to do, but without going into the details, they spent two years with those, trying to go through the elements of how to have it happen. And so what I'm watching with the 18th party congress and thereafter is that they start to make that shift. And this has a broader applicability because what they're worried about is what economists call the middle income trap. You grow quite rapidly at a certain pace, then you start to level off. And this is an issue for other developing countries. You're going to hear a lot more about this. But I might add, you know, maybe the United States and Europe and some others should also look at structural reforms.

Most of the discussions you're seeing are the macroeconomic fiscal monetary policy. There's things we could do for innovation and infrastructure and human capital in the microeconomic agenda.

As for your point about the effect on kind of their security and military posture, I think their resources are considerable and I think probably the investments that they're making in changing their military posture – you probably know the details of this or others sure do it much better than I do – but reflect a movement of sort of professionalism with the PLA and different model, and I think those are going to continue.

And one always has to be – the last thought on this is one always has to be a little careful in that, you know, whether economic slowdowns might take resources away from somebody's military. Economic slowdowns were also the period that actually creates tensions in the international system, if we think about the '30s or periods earlier. And so what I'm actually more concerned about is we're now on our fourth year of this economic downturn. And as I – as we suggested to our developing country clients, I don't see a quick fix and a recovery. So I'm more worried about the political strange and renationalization of policies.

You see this in the trade area. We've avoided wide scale protectionism, but it's creeping in and increasing. Pascal Lamy at the WTO would formulate recently that you

have about 1 percent of global trade subject to barriers. It's now up to about 3 percent and there is increasing barriers beyond the formal barriers. And something to think about for emerging markets, something I'm just starting to ponder is as developing countries move away from some of the export-led growth to domestic demand – this one may interest you – is that the – there will be pressures within those countries to keep the demand at home. And there'll be sort of nationalization of policies against the external system.

So in some ways, your question is a good one to conclude on because, remember, I got into this by talking about the Bretton Woods institutions and trying to have an international economic order that had win-win possibilities, mutual growth, security and stability, and avoid great cataclysm. And that's a challenge we still face today.

MR. MALLABY: Well, I think everyone would agree that globalization is impossible to reverse and there's a kind of political deficit in it, in the institutions we have to manage it. So it's good to have had you running the World Bank.

MR. ZOELLICK: The only thing I was going to say is – this is where maybe I'm a little bit more of a small c conservative. I hope globalization is impossible to reverse, but in the mid-20th century, over the first part of it, we got pretty close to doing it. So – (laughter).

MR. MALLABY: And on that really optimistic note, we'll end this session. Thank you, Bob Zoellick. (Applause.)

(END)