

**President Robert B. Zoellick
Opening Press Conference
September 22, 2011**

MR. MILLS: Thank you all for coming to our opening press conference for the World Bank and IMF Annual Meetings.

Today we have President Zoellick from the World Bank. He will be opening with a statement, and then we'll move to some questions.

If I could please just reiterate if everyone could make sure that their cell phones and pagers are off, and that when we turn to questions if you could please identify yourself and your organization.

With that, President Zoellick.

MR. ZOELLICK: Thank you, Rich.

Good morning. Thanks to all of you for coming to this opening news conference of the Annual Meetings of the World Bank and the IMF.

I'd like from the start, to take this opportunity to say how delighted I am to be able to work with Christine Lagarde as the new head of the IMF. Of course, we've actually had the chance to cooperate from her since her first appointment as Trade Minister of France. And I've seen her skills, insights – and her leadership – will make her an invaluable partner at this sensitive moment in the world economy.

Before turning to your questions, I'd like to offer some sense of what I expect to be discussed at these meetings.

These meetings offer an opportunity for our senior officers and me to take the pulse of our client countries; to listen to their concerns, and to adjust to ensure that we are offering them the very best support we possibly can.

The World Bank has become faster and more targeted in its response to client needs. But we can certainly do better.

Two key themes of this meetings are gender and jobs. While the gyrations of the financial markets will grab your headlines, it is these structural issues that can lay the foundation for sustainable growth.

We've just released a World Development Report on gender that proves that "getting to equal" for women is not just the right thing to do. It's also smart economics.

Women, as one of your colleagues pointed out to me, are the next big emerging market. How can the world reach its full growth potential if it fails to advance the prospects, energies, and contributions of half the world's population – women and girls?

Nearly four million girls and women in developing countries "go missing" each year when compared to female counterparts in developed countries.

That's like losing a Los Angeles, a Johannesburg, a Yokohama.

Access to credit and property. Removing barriers to work and jobs. Investments in health, water, education. Empowering the voice of women. Focused attention –even just removing barriers – can make a big difference.

At these meetings we'll be starting the process for our next World Development Report – which focuses on another fundamental for economic growth – jobs.

The last time the World Bank did such a report on jobs was 16 years ago and much has certainly changed.

Back then the issue was globalization's effect on jobs. Today we live in a vastly different new multipolar economy.

Now the topic that I suspect will dominate discussions this week with our shareholders is the darkening outlook for the World Bank's clients: developing countries.

Up until recently, developing countries have been the bright spot in the global economy. They provided around a half of global growth while Europe, Japan, and the United States have struggled with high debts and high unemployment.

While developed countries stumble, the situation for emerging markets may be changing for the worse. Since August, we've seen bond spreads for emerging markets increase, their equity markets have declined like in developed markets, and capital flows have declined sharply.

Falling exports were already a worry. Now falling markets and declining confidence could prompt slippage in developing countries' investment and a possible pullback by their consumers, too. A fall in developing countries' domestic demand would mean we'd lose their economic engines as drivers of global recovery.

Now the developing countries are not as well-placed as they were in 2007 -2008 to withstand another shock. Their budgets are not so robust that they can simply spend their way out of trouble; and some are walking a monetary policy tight rope, balancing price pressures and these new dangers.

Add in volatile and high food prices – a particular burden on the poor in developing countries – and the threat of rising protectionism, and you can see that developing countries face increasing headwinds.

If the situation deteriorates further then developing countries' growth could turn down, their asset prices could drop, and then their non-performing loans could increase. With these pressures and prospects, we'll have to anticipate possible protectionist pressures, "Beggar thy neighbor" policies, and a risk of a retreat to populism.

The world is in a danger zone. In 2008, many people said they did not see the turbulence coming. Leaders have no such excuse now. And dangerous times call for courageous people.

Some developed country officials sound like their woes are just their business. Not so.

I still think that a double-dip recession for the world's major economies is unlikely. But my confidence in that belief is being eroded daily by the steady drip of difficult economic news.

A crisis made in the developed world could become a crisis for developing countries. Europe, Japan, and the United States must act to address their big economic problems before they become bigger problems for the rest of the world. Not to do so is irresponsible.

But I know well that acting on them means honest and difficult discussions with parliaments and publics. Delay will narrow choices and make them harder and more costly. All of us across developing and developed economies have a stake in how they handle it.

To close, I also want to note that the Bank will use these meetings as a complement to the goings on in New York at the UN to assist countries rent by conflict – for example, in the a focus on countries in the Horn of Africa, Southern Sudan, Cote d'Ivoire, Afghanistan and Libya.

In addition to meetings with Arab Governors, and the Arab Funds, whom I met last night, and Ministers from Tunisia and Egypt, I'll have the opportunity to meet with Dr Ahmed Jehani, Libya's new Minister of Stabilization and Reconstruction.

I am pleased to take your questions.

MR. MILLS: Thank you very much.

Yes, Danny.

QUESTION: Danny Jiang with China's Xinhua News Agency.

President, Zoellick, I liked your speech yesterday a lot, surrounded by drummers dressed in "Think Equal" t-shirts. But it seems that the world has not given an equal amount of attention to the vulnerability of developing countries amid the high economic uncertainties, so what economic and financial buffers should developing countries build to get prepared if the world economy further deteriorates into a worse scenario, and how might those buffers turn into long-term drivers?

Thank you.

MR. ZOELICK: Well, my remarks this morning and my remarks over the past couple days are designed to try to emphasize the explicit linkages between the developed countries and the developing countries, and in particular, I have tried to specify the particular changes we are already seeing in, for example, bond and equity markets, and I have tried to exercise our responsibility by anticipating some of the areas that we could see. So, for example, in terms of developing countries' domestic demand, the statistics, which have a lag, don't necessarily show this yet, but we follow, for example, purchasing manager indices, and while these are always a little difficult to monitor across the developing world, they are starting to show some deterioration. So these are some of the issues that I want to highlight and focus attention on.

Now, your question focuses particularly on the developing country response, and what I have tried to mention is that it obviously depends on the Region and the countries, but in general, their space to respond on the fiscal side is limited compared to where it was in 2007-2008.

In the area of monetary policy, you have this very sensitive line to walk where a number of countries were worried about overheating; they still face the dangers of food price inflation, but now they have to manage the risk of a possible broader downturn in demand.

So part of these sessions will be to try to highlight those issues, but I think whether it is developing countries or developed countries, I guess I would conclude my answer to your question by saying there are two general policy sets. One is don't do dumb things--so, don't let the world slip into protectionism. And then, secondly, or in the case of agriculture, when prices start to go up, avoid hoarding, avoid export bans. And then, whether it is a developing or a developed country, my repeated advice has been keep your eyes on the drivers of long-term growth. These vary by country. One of the reasons why the Gender Report is a powerful example is that you can see striking productivity gains by including girls and women more effectively, and that's a driver of long-term growth. In the case of the United States, what it means is that in addition to trying to deal with the long-term spending and debt issues, the political shape that you are starting to see across the spectrum for broad-based tax reform which would expand the base, cut rates, like one I was involved with in the mid-eighties. That would be a very important step. Opening markets is one of the best drivers of structural reform.

Now, in China, for example, one of the key topics is the one that I was discussing in Beijing, which is that even with strong growth over some 30 years, I think it is wise that China start to be looking at the

structure of a different growth model and moving away from export-led and investment-led growth. That will create a better context for balancing both the Chinese economy and the global economy.

Those are the goals of the 12th Five-Year Plan. Our project is designed to work closely with Chinese colleagues to try to specify how this can be done. This is obviously going to be a challenge primarily for the next generation of Chinese leaders, but we hope we can contribute to that.

MR. MILLS: Thank you.

Yes?

QUESTION: Thank you, Sir.

My name is Andrei Sitov and I am with Tass, the Russian News Agency.

I wanted to ask you about the BRICS. They will be meeting here in a couple of hours, I guess. And everybody assumes that aid to the EU, to the Eurozone, will be on the agenda. It is a first, as we all know.

I know that you believe that the Europeans need to help themselves mostly, but still, my question to you is what is the best role that you can see for the BRICS countries in the current situation, and not necessarily just China but the other BRICS also.

Thank you.

MR. ZOELLICK: Well, I think the best role for the BRICS countries is the same as the best role for any countries, which is to focus on what they need to do at home to get through the current financial dangers and to move on to long-term growth.

So the fact that emerging markets have provided about half of global growth has been a very important contributor to the nature of the recovery. So, over time, as I just mentioned to the Chinese question, it will be important to move toward greater domestic demand, greater balancing of the economy, appreciation of the currency. And for, say, in the case of India, India's inflation has probably also been related to some supply-side factors, so the ongoing effort to try to reduce structural barriers to growth would be important. The agricultural sector in India years ago was known for the "green revolution." There are probably huge potential gains there in terms of the productivity side.

Russia obviously has relied very heavily on energy, and the direction of the government in terms of trying to have a broader base of reform, structural changes. Some that we are involved in through IFC, putting together a new investment fund to support some small and medium-size banks outside the St. Petersburg-Moscow area, could be very important.

And in the case of Brazil, you have an agricultural power, a country that has new potential energy resources, and it is trying to deal with competition in its manufacturing sector given all these gyrations of currency and other issues.

So the bottom line for this is that economic cooperation will be vital going forward. There will be temptations to engage in verbal jousts and, worse, actions that would impede the overall economic success.

So I hope that coming out of these meetings, the discussion of Ministers will highlight more effectively that they can all hang together, or they can hang separately.

MR. MILLS: Yes, right over there; thank you.

QUESTION: Thank you.

Sandra Sun, from China Business News.

I wonder if you can elaborate a little bit on China. The World Bank classified China as a middle-income country this July. Based on what you have observed in China, to avoid the so-called middle-income trap, what are the long-term and short-term issues that China needs to address?

Thank you.

MR. ZOELLICK: Well, on the short term, I think the predominant concern has been the one about avoiding overheating. Some of this has been driven by food price inflation. I think the actions that the Chinese are taking through the banking system but also on the monetary policy, including appreciation of currency, are headed in the right direction, but as the comments by Premier Wen Jiabao not long ago emphasized, they haven't yet slayed the dragon of inflation, so that will be an ongoing challenge.

In the long term, I can reference the report that you probably have familiarity with, and I am very pleased with this report because, as you said, it goes to this critical issue of avoiding the middle-income trap, the structural changes. These involve better pricing for natural resources, and let me just make a slight add-on here.

Justin Lin, our Chief Economist, just had a call with the chief economists of a number of the multilateral institutions yesterday--I just got an email report this morning--and one issue that they all emphasized--it's kind of a "sleeper" issue--is the huge energy subsidies that are available in developing and developed countries which lead to overuse of the resource and also lead to inefficiency in production. So here is another good example of a structural change if you move toward reducing the subsidies and even just have market pricing for energy, to say nothing of the effects that it might have on carbon.

So this will be an important issue for China. The financial model for a lot of the state-owned enterprises has been based on a restricted financial system, low interest rates to consumers or to savers. This allows, in a sense, some mispricing of the capital side.

China needs to move up the value added chain for its workforce. Within five years, we estimate there will be more people leaving the labor force than coming in. So this talks about everything from education to an open innovation system.

So the good news is the types of changes that we have outlined in this report and which seem to have a broad base of discussion in the Chinese policy community as well as the academic community are the types of things that could be good for China, but they could be good for the international system as well.

MR. MILLS: Right over there in the back, please.

QUESTION: Thank you.

Rueben Barrera with the Mexican News Agency Notemex.

I would like to go to the issue of populism that you alluded to in your initial statement, and the question is what are the chances that we can see a resurgence of populism, especially when protectionism seems to be an easier thing to do for governments. And in the case of Latin America, what is the risk that we could see rising populism, especially when the type of populism that has been pushed by President Hugo Chavez of Venezuela seems to be losing appeal not only among people but also among political leaders?

MR. ZOELLICK: Well populism takes different forms in different countries, so let me start with protectionism.

So far, the good news has been that while there was an increase in various trade barriers, formal and informal, in the 2008-2009 period - these would include permitted actions like anti-dumping, countervailing duty suits, safeguards, increasing your tariffs, that--they actually came down a little bit over the past year, in part because developing countries were worried about inflation, and if you are worried about food price inflation, you actually want to lower the price of food coming into your country. But--and this is the big "but"--the thing we now have to be alert to is that given some of the dangers of drop-off in demand, I think it will be tempting for some countries to start to protect their manufacturing sectors, and in that environment, you could start to get a cycle of policies that become disruptive - as they were in the thirties.

So we are working with the World Trade Organization - and we have worked with some outside parties as we did before to monitor these and report these, to in a sense get the information out there and, if we can, "name and shame," so if people take these actions, they have to explain them to their international counterparts.

You mentioned the Latin American context. The good news in Latin America is that there has been a silent revolution over the past decade. Latin America is known for some pretty noisy and active revolutions, but the silent revolution has been a change in management of the macroeconomic policies, so the Latin American countries in general came in with better debt positions, better ability to deal with fiscal problems, effective monetary policies, and flexible exchange rates, which adjusted to some of these changes.

And there has also been, in a number of the countries, an ongoing effort to engage the benefits for the international system. Much of this--and this is a change--has come from East Asia. Now, part of this, of course, has been driven by commodities--agricultural and mineral. I tend to believe that the agricultural demand will remain high over time. I think this will be a function of increasing incomes.

On the mineral and commodity side, as you have seen with copper prices, it is a little uncertain as demand slows. So one of the challenges that we are discussing with Latin American countries is to make sure that their structural reforms further diversify their economies.

This also offers some opportunities if you open up services sectors--this is true with China as well--to increase productivity, increase jobs, increase the resilience of your economy. So this would be an excellent area for the international trading system to try to foster.

Beyond that, I'll just say that, of course, Latin America is a very diverse Region, so Central America faces a different set of problems that are linked to narcotics and insecurity, and we are also trying to work very closely on those issues. The Caribbean countries face the problems of small island economies dependent on tourism, repatriation of various types of earnings.

There are things that we can do with these economies to try to be of support, but again, I will just come back to the core message. Nobody is going to be immune from the types of tribulations that I outlined here, so we want to work with our Latin American partners to benefit from the steps that they have taken, but I think they also are concerned about the events in Europe and the U.S., and they have to keep an eye on East Asian growth.

MR. MILLS: Yes, sir, right in the back.

QUESTION: Frank Brandemeier, with the German Press Agency.

You noted the spillover effect of the current crisis beginning to impact the emerging markets. What repercussions do you anticipate with regard to the poorest countries and post-conflict countries, and do you expect a further setback on the Millennium Goals?

MR. ZOELLICK: I didn't--your last phrase?

QUESTION: Do you expect a further setback with regard to the Millennium Goals.

MR. ZOELLICK: The Millennium Goals.

Well, it makes all of it harder. The post-conflict countries, the fragile states, have not reached--not one of them has reached one Millennium Development Goal. So the starting point is--you are getting set back from a negative position.

For most of those countries, the first concern that I have is food prices, because for many of them, particularly poor, with social instability, food being a large percentage of consumption, this could have a very dangerous effect, and I might add when I met with the heads of the Arab Funds, it is an issue that we need to watch across North Africa and the Middle East as well.

Secondly, it depends on the country, but a number of those countries depend on repatriation of earnings, or they have a diaspora, and obviously, those sources of revenue could be less.

Third, those countries are dependent on assistance from the Bank and others, and obviously, that is going to be harder to come by in this era.

Fourth, for sustainable growth, we have to build effective private sectors, and that means you have to be able to have the source of demand, and initially, that is likely to come from some of the outside marketplaces.

So I guess if I could sum it all up, I hear some voices out of the euro zone that say, well, this is an issue for Europeans. I agree it is an issue for Europeans to decide, but it is an issue that affects all of us.

MR. MILLS: Okay. I think we have time for one more question.

Yes, Phil?

QUESTION: Thank you, Richard.

Phil Thornton from Emerging Markets.

We have seen the succession process take place at the IMF, so to speak, and that--

MR. ZOELLICK: I'm sorry, I missed the first phrase.

QUESTION: I was saying that we have seen the succession process at the IMF run its course, and there is now a huge amount of speculation as to whether someone from an emerging or developing market will ever run one of the Bretton Woods Institutions. Your term comes up next summer. I was wondering if you could give your views both from a personal and from the global perspective, please.

MR. ZOELLICK: Well, from a personal professional perspective, I have tried to do the best that I could to try to advance emerging market officials into senior roles at the Bank. I had Ngozi Okonjo-Iweala, who was obviously such a star player that they brought her back to Nigeria as a draft choice; and Sri Mulyani Indrawati has obviously played a critical role in the Indonesian context. It is true at the vice presidential

level as well. I think that is one of the best things that I can do as an executive, and it makes us a better institution as well.

I might add, since we are focused on the gender topic this week, the fact that we now have over half our officers or above--that is about 50 people--who are women is also something that I think is a good signal for all the institutions.

As for my plans, I think the responsible thing to do would be early next year, I will determine what I would like to do, and then I'll communicate it to the Board and others.

As for these institutions in general--you mentioned developing countries not running any of the Bretton Woods Institutions--I guess that depends on your definition, because--it's a good thing--the heads of a lot of the regional development banks are people from emerging markets. They are first-rate individuals. It shows the cooperation we can build.

My only slightly sort of nonconventional wisdom point is that I have spent some 30 years of my professional life trying to encourage the United States to play a larger role in multilateral institutions--they may be the World Bank and the IMF, they may be the WTO, they may be NATO, it may be the creation of APEC--and I think it is a good thing for the United States in some of these institutions to have leadership roles because I'll just tell you, even in the midst of these Annual Meetings, I have been working with the U.S. Congress to try to build the financial support, and it helps to be able to communicate the perspective of a multilateral institution.

So, again, I think this is actually a good sign. With the super committee, I have had a chance to talk with a couple of the Senators privately and emphasize how the fundamental issues that they are dealing with relate to America's position in the world, and they have used those points.

So, it may or may not be the World Bank, but there are politics involved with a lot of these choices, and you haven't seen a U.S. head of the UN or WTO or IMF and others, so I just think it is important that the U.S. stay engaged in multilateral institutions as well.

MR. MILLS: Thank you very much.

Thank you.