

Stanley Fischer Memorial Lecture: Geopolitics and Development

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Introduction: Stanley Fischer

I would like to thank Indermit Gill and Masood Ahmed, my friends at the Lee Kuan Yew School of Public Policy, and all of you for this opportunity. It is a great pleasure to be back at the World Bank. I had an opportunity to meet President Ajay Banga as I came in, and I know that he supports the Bank's special role as a sponsor of development research, even as he has his hands full with many daily challenges.

I'm especially honored to give the first lecture memorializing the many contributions of Stanley Fischer. I was privileged to know Stan in a number of his roles over the years. Of course, he was an extraordinary economist. Equally important, he ranked at the very top as a mentor of talented students who would leave their own marks all around the world. There is no better legacy for a professor than to help students launch their scholarship. And to crown all those talents, Stan was a very kind and thoughtful person.

In my years at the Bank, I regularly arranged one-on-one lunches with Stan. I saw his true character when he observed that some things seemed to work in practice, if not in theory!

Others are more qualified to speak to Professor Fisher's contributions to scholarship. But Stan was also a policy practitioner — here at the World Bank, the IMF, the Bank of Israel, and the Federal Reserve. And that experience bears upon the topic of this lecture: Geopolitics and Development.

Stan's life personified the importance of appreciating the political context in which economic policymakers must operate. His life encompassed war and peace, stagnation and dynamism, crises and revivals, and it ranged from small and developing economies to global powers. So in many respects Stan's life previewed the perspective that I'm going to share with you today.

Economic History & Geopolitics

Economists are usually attracted to mathematics and models, leaving history and institutions on the scholarly sidelines. And historians treat economics as an afterthought at best. But in my experience an appreciation of economic history and knowledge of institutions, including of local conditions—the old field that we used to call political economy—provides the foundation for actually making policy.

Geopolitics—broadly understood as a mix of power politics, geography, security, and I would add ecology—furnishes the framework in which development economics must operate and adapt. Crises, shocks, slowdowns, and even breakdowns create conditions in which new ideas emerge.

Harold James, who is a true economic historian, just published a book explaining how Seven Crashes shaped globalization. So this morning, I'll offer an historical context for thinking about geopolitics and development. And then I'll hazard some ideas and considerations for the years ahead.

The European Age of Discovery: Mercantilism & Imperialism

The European Age of Discovery and empires emerged from a search for political and economic power through commanding trade routes, territories, resources, precious metals, and subject peoples. Advances in marine and military technologies accelerated this early-modern era. But the motivations were not just economic and technological. People were inspired by religious missions, by a sense of glory, royal favor, adventurism, entrepreneurialism, curiosity - and a capacity for violence. The Europeans encountered other empires—in India, China and across East Asia, Indo-America and Africa—with effects that last through today. In some temperate climates, Europeans settled colonies, supported by slavery and exploitation and decimation of native peoples. This was the economic era of Mercantilism and Imperialism.

The International Economy in the 19th Century

By the early 19th century, colonies in North and South America had won their independence, and they began to explore their places within a new international economy. European famines in the 1840s precipitated movements of people, capital, and goods, forging a deeper type of global integration. Steamships quickened transport. The New World expanded the supply of food and other commodities. Failed political revolutions in Europe added to emigration. New institutions, both governmental and private, arose to deal with the financial and logistical problems of this era. The monetary system expanded with gold discoveries. Governments liberalized trade, opening opportunities for more private actors. And countries began hosting world fairs to market themselves and to share ideas.

By the middle of the 19th century, national and geo-politics altered this international economy. The Union's victory in the US Civil War and the Meiji Restoration in Japan began a new era of nation-building. Wars of unification in Germany and Italy created new national and would-be imperial powers. The new European order precipitated the so-called Scramble for Africa and a search for resource wealth with investments in infrastructure, but not in people. About the same time, the Qing Dynasty crushed the Taiping Rebellion, but struggled to modernize. Another race, this time for colonies and concessions in China, threatened to fragment China like Africa. European powers imposed “developmental learning” on the Chinese, for example, through the Chinese Maritime Customs Service. The Russian Empire stretched to the Pacific. This was the Century of Humiliation that Xi Jinping recalls today.

In the late 19th century, the recently independent states of Latin America also fought continental wars for resources, territory, and maritime access; as you know, some of those issues persist today.

As geopolitics redrew maps, developments in technology filled in the interconnections. The new infrastructure—railroads, telegraph lines and oceanic cables, bigger steamships, and the Suez and other canals—underpinned both national and international expansions. Geography seemed to shrink. New supplies flooded markets. Governments developed company laws, civil services, and

financial markets. But the resulting transformation was complex, troublesome, and even brutal. The history of the late 19th century is recorded through deflations, financial crises, defaults, and a process that winnowed producers. Falling gold production created uncertainties about money as well.

Political economy thinkers sought parallels with recent scientific hypotheses about biological evolution and survival. New ideas emerged, ranging from socialism and communism to the vitality of national will and even cultures in conflict.

The Great War and Government Controls

By 1900 the competition produced what today's scholars would describe as a multipolarity of powers. They were jostling in a contest of strength and national ideologies. The outbreak of World War I in 1914 at first arrested this globalization, but then quickly re-channeled globalization into new forms. Wars, especially long ones, depend as much on economic resilience as they do on military arms. The war stimulated a world of new production—channeling food, materials, and even manpower into a cauldron of destruction in Europe. Blockades led to shortages in war zones, compelling governments to plan and organize for scarcity. War finance required asset sales, new taxes, requisitions, controls on foreign exchange, and forced savings. In a flash, globalization had turned from vast markets reflecting private and individual choices to a government-controlled collective redistribution of resources.

The International Economy Between the Wars

Then the aftermath of the Great War transformed the world economy yet again. Four great dynastic empires collapsed. War refugees flooded borders, but the great migrations of the 19th century subsided. The winners wanted to impose the costs on the defeated. The losers sought to avoid the costs through inflation and defaults. The earlier supply expansions led to gluts when Europe started to recover and the Soviet Union forcefully industrialized. Devaluations to assist exports increased the burdens of foreign debt. Inflation during this era challenged ethical values and undermined political confidence. The political instability made foreign investment even more challenging.

The efforts to re-invent internationalism floundered. The inter-war years included multiple paths towards recovery and development. In the late 1920s, the US pushed ahead successfully. Innovations in electricity and industrial organization led to a productivity boom in the United States, encouraging a financial exuberance. Some economists today wonder if the AI revolution is the next general-purpose technology, like steam, electricity, and personal computers of earlier eras. Japan's export industry expanded in the 1920s as well, and Tokyo looked to new markets, including in China. The Soviet Union demonstrated a new, especially harsh way to industrialize. Markets, politics, and policies interacted awkwardly.

The US market crash of 1929 might have only precipitated a nasty recession, but a combination of policy mistakes tipped markets and confidence into the Great Depression. The wrong monetary policies led to bank failures, a collapse of credit, forced sales of assets—and then a downward spiral. The Smoot Hawley Tariff Act closed US markets further, spurring retaliation. As US demand fell and capital exports retreated, other countries couldn't pay their debts. The peripheral developing economies, which had benefited from the economic boom during World War I, relied

heavily on foreign purchases and finance; they were trapped in this system. Not surprisingly, countries opted to cut links with an international system that seemed to be imposing deflation and depression. Governments turned to autarky and economic nationalism.

The London Economic Conference of 1933 failed to create a collective response. Countries began to look for scapegoats. Japan invaded Manchuria. Hitler targeted enemies at home and soon throughout Europe, with his economic model of Lebensraum. Stalin purged Soviet institutions and peoples. The surviving empires retreated behind imperial trade preferences, preparing supply lines for war.

The memory of these failures haunted later generations, but I worry this memory is too distant today.

As Nicholas Mulder discusses in a very intriguing book, *The Economic Weapon*, the World War I experience planted the seed of another experiment to infuse economics and security. The officials who had operationalized the blockades of war tried to use economic sanctions—through the new League of Nations—to deter future wars. The experiments usually failed, but left a legacy of tools of economic coercion that have been retried frequently over past decades.

Bretton Woods and an Adaptive International Economy

In the closing years of World War II, the US, Britain and others made a first effort to recreate an international economy out of the ashes of the war. But the architects of Bretton Woods in 1944 did not aim to promote a new globalization. Instead, they were trying to revive and reconnect different systems of national economies and markets while managing sources of conflict. The governments in that era were still working with ideas about planning and development—ranging from the American New Deal to Keynes' views about macroeconomics to Sun-Yat Sen's vision of national modernization. The charter for the International Bank for Reconstruction Development grew out of an earlier plan for an Inter-American bank to provide public financing. And as you know well, the World Bank's mission was both Reconstruction and Development.

The post-war leaders soon recognized that the new institutions had to be highly adaptive. International economic revival and development became a process, not a structured plan. As Ben Steil has observed, the Bretton Woods system had been based on four assumptions: US-Soviet cooperation; a pastoralized Germany after de-industrialization; a safe receding of the British Empire; and a re-establishment of global trade backed by modest balance of payments support from the IMF. Within two years after the war, by 1947, each of these assumptions proved wrong. George Marshall and his team had to begin anew.

The effort to create a new International Trade Organization floundered, but the GATT negotiations substituted. Nevertheless, world trade only slowly returned to its former levels. In 1913, trade accounted for about 13.4 percent of world output. That figure fell to 10.8 percent by 1929. In 1950, five years after the end of World War II, trade only accounted for 6.5 percent of world output. By 1960, trade had revived to 8.1 percent. It hit 9.5 percent in 1970, still short of 1913 and 1929. It took until 1990 for trade to reach 18.2 percent of goods production. But even in 1990, textiles, apparel and agriculture were not fully integrated into the system.

The International Economy of the Cold War

Geopolitics divided the world into two, with the world's market economies revived by US demand and financing. Reconstruction and development grew in tandem, especially as decolonization expanded interest in more regions. As I hope many of you know, the World Bank's first loan was to France, followed by the Netherlands, Denmark, and Luxemburg. The World Bank's fifth loan was to Chile. From 1946–49, 81 percent of World Bank loans were to Europe, and only 19 percent to Latin America. Between 1950–59, however, 38 percent of World Bank loans were to Asia, 22 percent to Latin America, 15 percent to Africa, 5 percent to the Middle East and North Africa, but still 20 percent for Europe.

The Cold War rivalry, combined with decolonization, heightened competition between centrally-planned socialism and developmental capitalism. Arne Westad, now at Yale, observed that Washington and Moscow were contesting the very concept of economic modernity.

Early Theories of Development Economics

The new discipline of development economics at first recommended transferring capital, especially for infrastructure, and a Big Push to achieve balanced growth. Others focused on putting labor to work through industrialization.

Agriculture looked less promising to early development theorists, but then Norman Borlaug and the Green Revolution combined advances in plant genetics with simple innovations to increase supply. These agricultural successes converged with a political interest in land reform. John F Kennedy's New Frontiersmen argued that Modernization Theory offered a counter to communism by transitioning traditional societies through stages of growth. The new USAID managed the frontlines of this rural development strategy.

Under Robert McNamara, the World Bank vastly expanded its lending for health and education to reduce poverty. Research on diseases helped WHO to resist and even eliminate some diseases.

The World Bank and Development Research

In 1972, McNamara persuaded Hollis Chenery and Simon Kuznets, who had just received the Nobel Prize for Economics, to build the World Bank's quantitative research capacity. The Bank's focus on statistics, analyses, and development became a very proud part of its mission—through today and this conference.

In a modest way, I was pleased to advance this agenda with our Open Data Initiative, to make the World Bank's amazing data more available for free; our idea was to help democratize development research.

Debates on development economics have always been infused by ideas from politics and society. In 1973, UNCTAD called for a New International Economic Order to break free from old dependencies. That same year, the OPEC oil embargo announced a power shift to some commodity producers and revived interest in energy security.

The theorists of big comprehensive development plans were surprised by a more focused approach, export-led growth, pioneered by Japan and then South Korea and others in Southeast Asia. This

model relied on foreign markets, legal and property rights, an undervalued exchange rate, and sources of credit to expand industries.

The 1970s: Shocks, Breakdowns, and New Ideas

In the 1970s, the economies of the developed world began to sputter. They faced higher energy costs and shocks, as well as increased export competition. The fixed rate exchange rate system began to break down. If you look back at the literature, one can see that the language of crisis replaced the discussions of progress.

When I began studying economics in the 1970s, the big question was whether stagflation could be overcome. As during other times of troubles, publics and peoples were often tempted to blame others. Ideas for protection gained popularity. Yet crises can spur very different ideas. New technologies, especially for information, and new uses of old technologies, in this case containerization, created new outlets for competition and gains. The move of labor from old manufacturing to new services was wrenching, but revived growth.

A financial revolution made it easier to transfer capital around the world—with both promising and dangerous effects. The G7 economies tried a mix of deregulation, liberalization, monetary discipline, and openness. In contrast, the Soviet bloc could not keep up. The USSR became reliant on commodity production, precipitating collapse when energy prices plummeted in the 1980s. By the end of the 1980s, the people in the planned economies of Central and Eastern Europe and the Soviet Union wanted the lives that they observed just across the border in Western Europe.

The End of the Cold War

With the end of the Cold War in Europe, Eastern European economies launched a rocky transition, and the EU became an important magnet for a Europe whole and free. The East Asian economies were embracing development strategies based on trade, foreign investment, and international linkages. Under Deng Xiaoping, China experimented with reform and opening up, beginning what became the most important economic transformation of the past half century. And in 1991, a balance of payments crisis in India began to change the old order there as well. The world market economy surged from about 1 billion to 5 or 6 billion people, in basically the flash of an eye; one would expect that this transition would prove disruptive—and it was.

The creation of the WTO in the early 1990s further opened the trading system. Financial, debt, and exchange rate crises overwhelmed fragile and unprepared banking systems in Latin America, East Asia, and Russia. Critics of globalization began to mobilize, although under very different banners. A number of emerging markets opted to generate trade surpluses and savings as a cushion against instability.

China's growth boosted commodity prices, helping many other emerging markets. China's production contributed to a Great Moderation in prices; supply and logistics chains integrated production much more tightly, while transferring know-how. But low-cost capital and easy monetary policies boosted asset prices, especially in property markets. The relatively benign world of politics seemed to facilitate a new positive pathway for economic geography.

The 2000s: Wars, the Great Recession, and Economic Nationalism

The terrorist attacks on September 11, 2001, including on the World Trade Tower, targeted the heart of this international economic system. United States and others resisted the impulse to close borders, which was very strong because of the danger. Instead, the G7 forgave debts to ease the burden on poor countries. New technologies—the Internet, mobile phones, iPhones with multiple apps—supercharged the dynamics of information flows and services.

In 2008 and 2009, the bubbles burst. This time the shock came from developed economies—and especially the United States—as a collapse in housing finance spread to banking and credit markets. For a time, the forum for action shifted from the old G7 to the G20. Behind the scenes, the revival depended heavily on U.S. and Chinese fiscal stimulus along with innovative central bankers around the world. Somewhat ironically, given the origin of the crisis, the United States dollar was in great demand as a safe haven, making Federal Reserve swap lines indispensable. The new Euro faced a very painful test, eventually leading the ECB to “do what it takes” under Mario Draghi and the EU to experiment with mutualized debt.

But fixes to one day’s problems often invite new challenges in the days that follow. In this case, officials had to deal with the uncertain effects of Quantitative Easing and the exit from extraordinary monetary policies. At the same time, old embers from the past flared up again. Vladimir Putin began a campaign to force Ukraine to yield territory, sovereignty, and independence, as Moscow sought to regain old Russian imperial lands. Economic nationalism reignited too, because governments didn’t want their stimulus and bailout money to be spent on foreigners. Collapsing governments in the Middle East and North Africa challenged Europe’s ability to absorb desperate people. Trade protectionism crept back. Even when countries gained from foreign investment, they became wary of foreign influence. The pandemic of 2020 underscored the risk of interconnections, even though the international trading system assisted with the adaptive response.

Globalization in 2025: The Phenomena vs Governance

Today, in 2025, the phenomena of globalization have not gone away: Consider the challenges of migration, energy, climate, disease, capital and trade flows, and debt. But the governance of globalization has fragmented.

The major powers—and many other countries—have contrasting visions of globalization. It would be much harder to catalyze a coordinated in response to a shock today than it was in 2008. Harold James has suggested that the first reaction of governments in a crisis is to pull back to seek national autonomy and self-reliance. But then countries recognize the need to find international solutions—or they break down into conflict. Perceptions of domestic and geopolitical interests dominate, but then national leaders have to determine how to navigate issues of coordination and even accommodation with others. Which brings us to the geopolitical outlook for the decade ahead.

The Geopolitical Outlook: Security

Consider the changed security context. The long-lasting norm against changing borders through force is breaking down. Ukraine offers the starkest example. But consider territorial changes in Sub-Saharan Africa and the Middle East. Maritime insecurity threatens freedom of the seas,

especially in the western Pacific, and in the Middle East. And then there is President Trump's claim for Greenland.

Nuclear weapons states will likely proliferate, reversing a 50-year restraint that surprised the experts. If the United States' assurances to allies wither, look for a rush to nuclear arms in East Asia, the Gulf, and even Europe. Defense spending will rise. As in the past, I would expect a symbiosis between military investments and cutting-edge technologies. Cyber security and gray area conflicts will test both governments and businesses. Organized crime networks will work from places of weak governance, reaching far beyond their borders.

Over a decade ago, I encouraged the World Bank to work on the special, multi-disciplinary problems of post-conflict and fragile states. I recently noted with interest, that the World Bank reported that 60 percent of the people living in extreme poverty are living in conflict economies.

Energy and Climate, Demographics, and Migration

Energy security challenges—returning as a political issue—will intersect with development agenda. AI is driving a huge additional demand for sources of energy, even as the world seeks to transition from carbon fuels. I expect to see a multiplicity of resources, enhanced by technological innovation. But innovation depends on the pace of adoption and diffusion, not just the technology. Grid interconnections will be as vital as production of new supplies. And developing economies will need assistance with adaptation and building resilience.

Demographics will also redesign the maps of the world economy. Aging; the need for workers; and migrants will change the size and composition of nations, as the World Bank's World Development Report of 2023 forewarned. But the economics of migration depend on the politics of absorption, nativism, flight, and job markets.

Finance and Debt

The geopolitics and changes in economic fundamentals will flow through to other issues—debt, finance and money. In the past, financial overloads or crack-ups have been associated with surges in political populism. Increases in debt will put pressure on overstretched central banks and tempt governments to resort to strategies of financial repression. Watch out for higher real interest rates, reversing a downward trend over decades. Ken Rogoff is warning of a debt super cycle—with low-moderate income economies teetering on the edge.

Financial innovation, including crypto, stablecoins, and tokenization will test both regulations and supervisors. The US Dollar remains preeminent, but politics will lead to increased decoupling of financial markets and frictions in currency markets. I think that the biggest looming risk is a deadlock, instead of international cooperation, when the next crisis hits—as it will.

Trade and Development

Geopolitics has pushed international trade and investment toward a zero-sum logic, reminiscent of the old mercantilism. The big economies will assert their economic power more bluntly and transactionally—including through tariffs, sanctions, rules of origin, and other barriers. We might see regional poles develop, but still with global interconnectivity. In the past, as the story of

economic development has illustrated, export sectors have encouraged the transfer of ideas, experience, and know-how as well as goods - boosting productivity. Costs and prices will increase; competing standards and rules will impede innovation and efficiency.

The full impact of new general-purpose technologies such as AI or energy innovation depend on the pace of adoption and diffusion, including in developing economies. Nationalist leaders will be tempted to close borders, but doing so will slow their development and undermine their resiliency. Trade is like water. If you add barriers, the flow will eventually stream into new channels, perhaps creating new patterns of integration, as we're already seeing across East and South Asia, Africa, and the Middle East.

An International Economy of Big Power Politics

The system, or perhaps non-system, that follows the ruptures of today will depend in large part on and how the big powers perceive the intersection of national with systemic interests. Given the past importance of the United States—and its size, innovation, debts, money and military—much will depend on the vagaries of US policy. I think this will be a test of a decade, not just of a few years.

China's choices will be critical too, especially whether it wants to revise the current system to foster Beijing's interests or perhaps promote an alternative system, including in the digital economy. China's dual circulation strategy suggests one path, as does the ongoing adaptation of Belt and Road. The tributary state model of China has appealed to its leaders throughout history.

The EU is struggling to achieve greater cohesion for purposes of security, economic influence, and technology. The story of European integration has been told through chapters of crisis and if successful again, Europe will be a primary actor.

Japan and the UK, major islands on the periphery of geopolitical Eurasia, will endeavor to balance their internal reforms with international influence. This will be true of South Korea as well.

The development of India, ASEAN, and the Gulf states—on the south, southeast, and southwest borders of Eurasia—will weigh in the new global economic balance. When I served at the World Bank, I promoted the middle-income countries as beneficiaries of the World Bank, but I also wanted them to contribute to the changing multilateral system. So I'm pleased that the Bank's recent World Development Report returned to the difficult question of the so-called middle-income trap.

The demographics of Sub-Saharan Africa will fill in all future maps of economic geography. In 2026-27, the working age population of Sub-Saharan Africa will likely surpass that of all developed regions, and in a few more years, Africa's numbers will exceed China's workforce as well.

The Role of the Multilaterals?

The reordering of geopolitics and the world economy prompts questions about the future roles of the legacy multilateral institutions. Can they hold on? Can they help hold the system together? Can they assist with another adaptation?

Global threats do not necessarily lead to global responses. The geopolitical mindset can limit national political capacity for cooperation. To a degree, dynamic private actors—business, technology, and civil society—can offer alternatives. But the world would lose a very important binding agent, a public good, if the multilateral institutions and regimes withered. The plight of the World Trade Organization is a forewarning.

This audience is especially well aware of learning from multilateral experience and the need for continuous adaptation. I have argued that the World Bank and IMF can help address the changes and challenges of different eras, even crises, by focusing on performance and results to show value. The multilateral institutions need to anticipate so as to try to nudge the international governance system towards greater flexibility. Sometimes the multilaterals can play catalytic roles. That's what I think Ajay and Kristalina at the IMF are seeking to do today.

But even with the best analyses and intentions, one can only succeed when countries and clients take ownership and assume responsibility. I've always believed that countries must own their own programs; that ownership is the foundation for development. The multilaterals can help their client-members understand the changing context, learn lessons from experience, and suggest ways to combine resources, funding, talent, and networks to help solve today's problems and prepare for future growth.

Development Research and Practice: A Thanks to Stanley Fischer

Which brings me to a closing word to thank the sponsors of this conference. At times I've been troubled by the course of developing economy scholarship. I appreciate the need for humility, given past experiences with grand schemes for development. And I enjoy reading the findings and insights from random controlled experiments. But I am skeptical that lab trials will meet the needs of leaders and their supporting technocrats in developing economies. I hope that development economics can extend beyond miniature methods—and reach across silos to help perceive interconnections—with political and economic institutions, governance, macro and micro markets, and the changing world of geopolitics. That is what your conference is encouraging. And that is what Stanley Fischer came to understand as a great scholar and a realistic practitioner.

Thank you.