



TRANSCRIPTS

Transcript Providers

Shows By Category:

[Return to Transcripts main page](#)

FAREED ZAKARIA GPS

**Reviving U.S. Manufacturing; Interview with Timothy Geithner;
Dusk in the Land of the Rising Sun**

Aired January 29, 2012 - 10:00 ET

THIS IS A RUSH TRANSCRIPT. THIS COPY MAY NOT BE IN ITS FINAL FORM AND MAY BE UPDATED.

FAREED ZAKARIA, HOST: This is a special edition of GPS, THE GLOBAL PUBLIC SQUARE, from Davos, Switzerland. Welcome to all of you in the United States and around the world. I'm Fareed Zakaria.

We have a very important guest to start off this week, Timothy Geithner, the Secretary of Treasury of the United States. All eyes were on him this week in Davos. Are we really seeing bright spots in the U.S. economy? What can be done about the Eurozone crisis? I'll ask him all that in an exclusive interview.

Then, we'll go on a tour around the world with a global panel. Niall Ferguson, Kishore Mahbubani and Wadah Khanfar.

Also, how in the world did one of the world's greatest sellers in the global bazaar lose its mojo? I'll explain.

But first, here's my take. President Obama spoke forcefully in his State of the Union about the importance of reviving manufacturing in America. If you talk with economists, they'll tell you it's a very complex problem involving taxes, trade, regulatory policy, exchange rates, educational skills.

It is all those things, but when you move from high level policy to specific cases, you'll often find within element that is rarely talked about - a government's role in boosting its domestic manufacturers.

In a front page story last week, "The New York Times" detailed how Apple's iPhone ended up being made outside America. "The Times" wrote about the Apple executives who visited a factory in China to see if it could cut the glass precisely for the phone's touch screen. When the Apple team got there, the factory owners were already constructing a new wing. This is in case you give us the contract, the manager explained.

How could they afford such an extravagant gesture? Well, it turns out, "The Times" noted, that they received subsidies from the Chinese government.

That one incident is part of a pattern. In 2009, for example, Bridgelux, a light emitting chip manufacturer in the United States, was searching for a new factory site. The company considered the cost of building in the U.S. and elsewhere. The government of Singapore offered to pay half the setup cost of the plant. "Why can't we do that here in the U.S.?" the CEO, Bill Watkins, asked.

Andrew Liveris, the CEO of Dow Chemical, has been arguing for a national policy aimed at reviving manufacturing. In his book "Make It in America," Liveris argues that not only would a manufacturing policy produce good long-term jobs, it would upgrade the jobs skills that are crucial to keeping innovation alive.

"Innovation doesn't just happen in laboratories by researchers," he told me. "It happens on the factory floor. The process of making stuff helps you experiment and produce new products. If everything is made in China, people there will gain the skills, knowledge, and experience to innovate, and we will be left behind. Companies can't compete with countries," he said.

Take solar energy, an industry largely invented in America in which the manufacturing has largely moved to China thanks to massive state subsidies. Or consider wind turbines. China's biggest windmill makers have received more than \$15.5 billion in credits from state-owned banks. As a result, despite many concerns about quality, they won their first major foreign orders in the past year. Over time they will gain experience, improve quality, and further reduce costs. In industry after industry, the same pattern emerges.

In theory I'm deeply skeptical of government industrial policy. Government doesn't know how to pick winners and losers, it makes mistakes, the process gets politicized. And yet, when I look around the world, particularly in Asia, I see governments playing a crucial role. They do make mistakes, their versions of Solyndra, but they seem to view it like venture capitalists. Their role is to seed many companies, only a few will succeed. Once successful, the government helps these companies to compete against big American and Western multinationals.

There used to be a joke among Marxist economist who would say of a deviation from pure communist economics, "It might work in practice, Comrade, but it doesn't work in theory." That's what industrial policy looks like these days. The theory doesn't make much sense, but it's hard to argue with the results.

For more on this, you can read my column in this week's "Time" magazine. Let's get started.

(BEGIN VIDEOTAPE)

ZAKARIA: It's a great pleasure to have Timothy Geithner, the Secretary of the Treasury here.

TIMOTHY GEITHNER, SECRETARY OF THE U.S. TREASURY: Nice to see you, Fareed.

ZAKARIA: Let me start with an easy question. What is the United States economy going to grow at this year?

GEITHNER: You know, there are no oracles in economics, and it's still a pretty uncertain world, but I think that conventional view of the U.S. now is that we're growing between two and three percent. And I think that's a realistic outcome for the United States economy as long as we see a little more progress in Europe and as long as we don't see a lot of risk come from Iran on the oil front.

ZAKARIA: That scenario of two to three percent growth seems a little different from what Ben Bernanke thinks growth is going to look like. If you read the statement the Fed put out, and it was a very bearish statement. I mean, to be willing to almost guarantee that rates will be kept where they are until the end of 2014 suggests they don't see any growth of any - any robust growth for a long time. Are they wrong at the Fed?

GEITHNER: Well, you know, I'm not a forecaster, so my view is not worth much, but I think actually if you look at the - both the Fed's forecast and the consensus of private forecasters in the business community among economists, people are pretty close to be (ph) clustered in that area. But it's still very dependent on how the world unfolds.

Again, I think it's worth recognizing that, you know, we still face tremendous challenges as a country. We're still repairing the damage caused by a devastating financial crisis. That still has huge lasting impacts on the basic fortunes of most Americans. Unemployment is still very high; housing is still very, very weak; construction is very weak; people still have too much debt, they're bringing that down, and that's still going to take a while to repair.

ZAKARIA: You know, there is a very well established narrative now among the business community in the United States that there would be much more robust recover, the U.S. economy would be growing much more vigorously if there were greater certainty and businesses could invest and the reason they are not is a kind of tsunami of regulations, uncertainty about tax policy, uncertainty about the deficit. But, perhaps above all, the sense that the economy is being thrown this huge new wave of regulations in health care and finance and energy and that that's what's keeping the economy back.

GEITHNER: I don't think there's much basis for that view, although it is true that we are putting in place very tough reforms in the financial sector. We're trying to improve how the U.S. health care system works, and we're trying to change how Americans use energy. And those are necessary, desirable, very important long-term reforms for the United States, but I think if you look at the evidence we have about how the economy is doing and how the business community is doing in particular, the reality does not justify that sense.

So just look at the things you can use to measure basic health, business health. You know, profitability across the American economy is very, very high. Profits are higher than the pre-crisis peak. If you look at investment as a measure of confidence, private investment and equipment of software is up more than 30 percent since the trough in the first half of '09, exports are up 22 percent, there's broad-based strength in energy, in agriculture, in manufacturing. Not just high tech manufacturing, but even heavy manufacturing.

I was in - at a Siemens plant, a new plant in the United States, in North Carolina this week, which is building steam and gas turbines and generators, and for export. And they're doing that because they see in the basic fundamentals the productivity of the United States, even with all our challenges, pretty compelling, competitive vantage relative to where else they produce.

So I think if you look at the basic health of the American business sector, it's much stronger than I think anybody would have thought at the peak of our crisis and stronger than many of us hoped.

ZAKARIA: While business profitability is up, productivity is up, unemployment still remains a huge challenge and many businesses have become more productive because they've taken costs out of the system, they've managed very efficiently. How do you get the American jobs machine going again?

GEITHNER: Well, the biggest driver of how fast the unemployment rate comes down is how fast we grow. And the biggest determinant of how fast we grow now is really going to depend on these two fundamental factors. One is what happens in the world, meaning in Europe and in the Gulf because of oil, and frankly, just to be direct about it, whether Republicans in Congress decide they want to legislate things that are good for growth in the short-term.

So that what we think the right economic agenda for the country is, is for us to legislate a set of investment incentives, investments in things that matter for long-term growth, rebuilding America's infrastructure, more education, more spending on innovation, basic science and research, better skills for Americans tied to long-term fiscal reforms that restore sustainability. And if we were able to legislate progress in those things in the short-term, that would make a big difference for confidence. It would make a difference for this rate of growth of the American economy in the short - in the short run.

But, to be realistic, it's going to take a long time still for us to fully repair the damage, particularly unemployment that came as a cause of the crisis. But the private sector has created 3.2 million jobs since job growth resumed. That's actually pretty strong job growth in the private sector compared to the last two recoveries, and it's pretty strong given the aftershocks of the crisis. We all want it to be stronger, though.

ZAKARIA: Most people who look at the American tax code, which is with regulations and rules, 10,000 pages, one of the most

complicated in the world, believe that the key to reforming the tax code is broaden the base, eliminate deductions and loopholes, lower rates. Isn't the president's proposal in the State of the Union taking us in exactly the opposite direction?

GEITHNER: Not at all. The president's proposals, which are focused on a set of investment favorable reforms in the corporate tax system, manufacturing and investment, and on a modest but necessary increase in the effect of tax rate paid by the richest Americans. Those two things are only going to come, I think, realistically in the context of broad reform.

And what we're trying to do is lay the foundation for tax reform so that we can produce a more simple system, lower rates, broader base, more simple, less distortions.

ZAKARIA: Not why just propose tax reform?

GEITHNER: Well, and - because I think - I think you have to start with principles for a framework, and what we're trying to do is to be specific (INAUDIBLE) we think should dominate the debate.

So, again, I wish it were different for us, but the basic, crude fiscal realities of the United States now - and we have to recognize we have to govern within those limits - means that when we do tax reform, we're going to have to be helping contribute to deficit reduction.

We don't have the ability of offering the American people or the American business people community a net tax cut. That is beyond the capacity of anybody realistic about our constraints. But, again, just to put in perspective, our fiscal problems are daunting for us in the long run, but they are much more manageable problems than faced by almost any major economy around the world.

And it's important not to lose sight of the fact that given - given the high level of unemployment, given the very bad outcomes for median income in the United States over the last 30 years, 20 years, 10 years, given the just appallingly high rates of poverty in the United States, given the competitive challenges we face, that's going to require pretty significant investments in infrastructure and education innovation, you have to take a much broader approach. And we're not going to solve our problems in the country by thinking they're centrally about how we restore fiscal sustainability.

That's part of it but it's not the dominant challenge we face as a country.

(END VIDEOTAPE)

ZAKARIA: We will be right back from Davos with the Secretary of Treasury of the United States, Timothy Geithner.

(BEGIN VIDEO CLIP)

ZAKARIA: You made news a couple of days ago when you made clear that you were not going to serve in the second term of the Obama administration. Is that his choice or yours?

(END VIDEO CLIP)

(COMMERCIAL BREAK)

ZAKARIA: And we are back here in Davos, Switzerland, home this week to the World Economic Forum.

Now, more of my exclusive interview with Timothy Geithner, the Secretary of the Treasury.

(BEGIN VIDEOTAPE) ZAKARIA: When you look at your, Mr. Secretary, you look at the growth projections that are coming out, and they're all lower than projected, which means that the deficits are larger, which means that the debt to GDP is larger. The debt to GDP is larger in almost every case, not because the debt has gone up, but because the GDP has gone down. That is the - not that the numerator has gone up but the denominator has shrunk.

Does that suggest that austerity is not a path to growth?

GEITHNER: I think the debate about austerity and stimulus is mostly divorced from a much more practical reality. The proponents of stimulus I think today now realistic - are - probably exaggerated its power and its reach now. And if you think of the people who talk about economic problems is mostly problems you can solve with austerity get the big things wrong.

It is true, however, though, for parts of Europe for a long period of time there's going to be no alternative to very substantial adjustment in budget deficits in the size that the (INAUDIBLE) governments made. There's no alternative to that. For those to work, however, they need some support and some financing, and they need to be complemented by reforms that are also helpful for growth and competitiveness over time.

And - but they will not work if there's not a stronger commitment of financial resources standing behind the European endeavor, and without that those reforms will never work, and you're right, countries will face the risk that every disappointment in growth will be met with a austerity that will feed the decline. And that's a cycle you have to arrest if you saw a financial crisis.

ZAKARIA: When you were in China, did you talk about U.S.-China trade in a way that you think you will see results? Because the president in his State of the Union was pretty tough on China. Do you think that there is a path here, a constructive path, forward?

GEITHNER: Well, again, we'll have to see. You know, we measure people by their actions and, you know, China does present a pretty - a really unique and formidable challenge to the global trading system because the structure of its economy, even though it has more of a market economy now, is still overwhelmingly dominated by the state, by state enterprises. And China systematically subsidizes the costs of key imports - energy, access to credit capital, price of land, and it's kept its exchange rate below fundamentals for some time, although it's appreciating gradually.

So what that means is China. even though in many ways it's starting to have a world class manufacturing sector. is supporting that

... that instruments of change, even though many may not realize it, have a more subtle, insidious effect, supporting that ambition with a set of policies that are very damaging to not just the commercial and economic interests of its trading partners, but to the political support around the world for sustaining a more open trading system. And they are moving on some fronts, we'd just like them to do more and we'll - you know, we'll just have to see.

I think - I do think China believes that it's in its interest to try to make this broader system work. Of course, it depends a lot on its access to our market and other markets around the world, and we hope that provides enough of an incentive for them to make more progress in these reforms.

ZAKARIA: Let me ask you a final question. You were surprised that you made news a couple of days ago when you made clear that you were not going to serve in a second term of the Obama administration. Is that his choice or yours?

GEITHNER: That's an excellent way to pose that question.

You know, generally anybody who takes these jobs serve at the pleasure of the president, and, you know, at a time when we face so much challenge, so much pressure, you know, if the president asks you to do these things, you have to - you have to do them. And when - when he asks me to stay, when I thought it was the right time to leave, I agreed I would stay, and I agreed I would stay through the balance of his term, and he accepted that aspiration of mine. And that's where it's going to come out, I think.

ZAKARIA: What are you going to do next?

GEITHNER: That feels like a long way away.

You know, again, you know, we're in Europe. I know the eyes are all (ph) in Europe, but, you know, we are living with a terribly challenging and hugely consequential economic policy choices. We have a lot of unfinished business even on the financial reform side, and a lot of foundation laying for better policy outcomes on the things that are good for growth, investment, production in the United States, not just for the long-term fiscal.

So I feel like we got a - we got a long year of hard work, and I know it's a political moment in the United States, and people are skeptical about whether we can do anything, but our judgment is that we still have a chance in some of these areas to make some progress, and I'm going to - I'm going to focus on that as long as I can.

ZAKARIA: Tim Geithner, pleasure to have you.

GEITHNER: Nice to see you, Fareed. Thank you all.

(END VIDEOTAPE)

ZAKARIA: And we will be right back with a story you won't want to miss. Why one of the world's greatest exporters is now buying more goods than it's selling. A fascinating reversal of fortunes in Asia.

(COMMERCIAL BREAK)

(BEGIN VIDEO CLIP)

ZAKARIA (voice-over): Wherever you are in the world, you've probably used or coveted some Japanese product - a Honda four-wheeler, a Toyota Prius, a Sony, a Panasonic TV, a Nikon camera.

(END VIDEO CLIP)

ZAKARIA: From the 1950s, Japan's exports have flooded the world and fueled an economic miracle at home, making that country one of the wealthiest in the world.

Well, this week marks a turning point. One of the world's great export engines has run out of gas. "What in the World?" is going on?

(BEGIN VIDEOTAPE)

ZAKARIA (voice-over): For the first time in 31 years, Japan has recorded a trade deficit. In simple terms, that means Japan imported more than it exported last year.

Now, this is not that unusual for some rich countries. The U.S. has had a trade deficit since 1975 and, yet, we've grown. But the U.S. economy is not built on exports. Japan's economic rise, on the other hand, has been almost entirely powered by exports.

So what has changed in Japan? The Japanese government would like to blame one-off events. Last year's earthquake and tsunami crippled factories and shut down nuclear energy reactors. The offshoot of that was decreased economic output, plus, they needed import expensive oil from the Middle East.

But natural disasters have only highlighted and accelerated existing trends in Japan - a decline in competitiveness and an aging workforce. China and other East Asian countries can now produce cheaper products and in greater quantities. Add to that a rising yen, and Japan's exporters have been at a disadvantage globally.

Toyota's chief perhaps said it best last year, "It doesn't make sense to manufacture in Japan."

Add to this Japan's demographics. Between 1990 and 2007, Japan's working population dropped from 86 million to 83 million. At the same time, the number of Americans between the ages of 15 and 64 rose from 160 million to 200 million. In a global marketplace, this is a major handicap for Tokyo.

Look at this chart. Between 2001 and 2010, Japan's economy grew at seven-tenths of one percent, less than half the pace of

Look at this chart. Between 2001 and 2010, Japan's economy grew at seven-tenths of one percent, less than half the pace of America's. It was also well behind Europe. Contrast that with growth per person or GDP per capita, and Japan actually outperforms America and the Eurozone.

So while Japan's economy in aggregate has been hurt by this lack of workers, for the average Japanese income is still up and quality of life is still very high. That's partly why the country has not felt the pressure to reform.

Now, it's easy to extrapolate from the data that Japan's low growth is not a failure of economic policy, but just a reflection of its demographics, but that's too simple. In reality, Japan's industry is becoming less competitive and even per capita incomes will start slowing down. Tokyo's policy makers have failed its people. They could have opened up many of its closed sectors to competition, reformed its labor laws to make Japanese labor more attractive, cut pension benefits, allowed more immigration. Its government could have put the country on a path to reduce its massive debt burden.

Instead, we're entering an era where one of the great manufacturing nations of history faces a looming current account deficit. With its debt at 211 percent of its GDP, if the cost of its borrowing increases, Tokyo would face an even greater crisis, a default.

(END VIDEOTAPE)

ZAKARIA: Keeping a rich country competitive is very hard especially in a democracy where interest groups keep asking for more. More benefits, more subsidies, more protections. They want to be shielded from competitive forces.

It is happening in America just as it happened in Japan. It's easy to forget how powerful a growth engine Japan was in the 1960s, 1970s, and 1980s, but eventually it was unable to change its ways, reform, and get less rigid. The result was decline.

We will be right back with a special GPS panel the likes of which we couldn't put together anywhere else but here in Davos. Stay with us.

(COMMERCIAL BREAK)

CANDY CROWLEY, CNN CHIEF POLITICAL CORRESPONDENT: Time for a check of today's top stories.

In Oakland, Occupy Movement protesters broke into City Hall, damaged displays and burned an American flag. About 200 people were arrested as a result of clashes yesterday between protesters and police.

As many as 34 people were killed in Syria today according to a government opposition group. One day after the group says at least 98 people were killed. President Bashar Al Assad's government is under international pressure to stop a month-long crackdown on the anti-government uprising that began last year.

Egyptians are voting today in the first stage of elections for the country's Upper House of Parliament. Today's voting comes after the Muslim Brotherhood won a majority of seats in Egypt's Lower House late last year.

And those are your top stories. "RELIABLE SOURCES" is at the top of the hour. Now back to FAREED ZAKARIA, GPS.

(BEGIN VIDEOTAPE)

ZAKARIA: And I'm here in Davos. And we are joined by Niall Ferguson, the Professor of Harvard and author of many, many books; Kishore Mahbubani, the Dean of the Lee Kuan Yew School of Public Policy in Singapore; Wadah Khanfar, who was the Director General of Al Jazeera and is now running a kind of version of Davos in Qatar.

Let me start with you, Niall. When you look at the global economy, is it fair to say that the American economy's prospects seem relatively speaking better than a lot of the other ones and that one of the reasons - you get a feeling that President Obama perhaps is feeling a little bit more confident these days is that there is some good news coming out of America.

NIALL FERGUSON, PROFESSOR, HARVARD UNIVERSITY: Well, some good news did come out in the last quarter of 2011. Though, if you look closely at it, what was going on was that the savings rate was going down, and Americans had essentially stopped deleveraging and gone - gone back out shopping.

Whether that's sustainable or not, I really don't know. And I think it's, therefore, a bit too early to say the recovery is here, happy days are here again, and re-election is assured for Obama. I don't - I don't think we're by any means out of the woods in a whole range of different areas, not the least, housing.

So that's, I guess, a qualified answer. What's certainly true is that things are going way better in the U.S. than in Europe where we may yet see that big double dip that people have been worrying about all through this crisis. In fact, I think the double dip officially is here for the Eurozone, and it could dip even deeper if the crisis over the Greek debt explodes, which it could very well do in the course of the next few days.

ZAKARIA: Kishore, just atmospherically, do you get a sense that people are looking at America with somewhat less jaundice eyes, because, you know, you've been coming here in many, many years. And for the last two years, there was a sense that America was the problem. It was the country that had caused this crisis. There was still a certain amount of hangover from the Bush years. Is there a different mood about America these days?

KISHORE MAHBUBANI, DEAN OF THE SCHOOL OF PUBLIC POLICY, NATIONAL UNIVERSITY OF SINGAPORE: Well, I mean, there's a sense of relief that - that finally some good news coming out of America.

But privately I think I'll be very honest with you, I think people are still taking a wait and see attitude. They're not quite sure whether that this means America has really turned the corner. And more fundamentally, by the way, nothing has changed in terms of long-term trends, you know? In terms of the shift of power to Asia, Asian economies will continue to grow and the Europeans will continue to slide, and United States, we're not quite sure where it's going to be.

side, and United States, were not quite sure where it's going to be.

But you know when President Obama says in his State - in the Union speech, very dramatically, you know? All those who say America is on the decline don't know what they're talking about. It's not on a decline in absolute terms, but it will decline in relative terms. For five percent of the population to represent (ph) the world's GNP is unnatural. It takes super performance by America and underperformance by the rest of the world. The underperformance in the rest of the world is disappearing, and the super performance of America is disappearing.

So you are moving to a new world order, but if America remains strong, that's what the rest of the world actually wants and doesn't want to see a weak America.

ZAKARIA: You know, one of the things Wadah that I have always noticed in those public opinion polls was that while Obama was wildly popular in much of the world, and in Europe certainly had changed the image of America, there was one place in which it didn't really make much difference, which is the Middle East, Middle Eastern attitudes towards United States.

And the first year of Obama were not particularly good, and the second year of Obama were not particularly good, and they remained even after the Arab Spring not particularly unchanged, so does the - do you think people in the Middle East look at America pretty much exactly the same? Do they want it to get stronger and exercise power in that region? Do Egyptians want American help consolidating their revolution or is the attitude just stay away?

WADAH KHANFAR, FORMER DIRECTOR GENERAL, AL JAZEERA NETWORK: When Obama came, people were relatively optimistic. When he did a speech in Cairo and before that in Ankara or in Istanbul, he was actually talking to the Arab world, to the Muslim world, new language. Maybe they have been anticipating some action that they have not seen.

So there is a feeling of disappointment as well in the Arab world that what we see at this point in time is not what we have been thinking of maybe three years ago, so that issue is definitely - this moment in time, yes, there is disappointment, but on a wider scale, yes, people are adopting let us wait and see, and maybe, you know, they would like to see some respect to their choices and to their future in a way that doesn't put doubts about their place as they see it.

ZAKARIA: Before we leave America, let me ask you about the campaign. You wrote a column in "Newsweek" in which you were talking about how the right has to take this whole issue of inequality which President Obama spent so much time talking about in his State of the Union that the right needs to take it seriously as well.

FERGUSON: Yes. I think Obama knows he is on to something. He tried to decide, of course, late last year in Kansas, it was the core arc of the State of the Union Address. And he's playing his cards not just because he thinks he's likely to be up against someone like Mitt Romney or even for that matter Newt Gingrich whose personal finances don't look particularly average compared with the typical voter.

It's also because he knows that the Republican Party does not have a clear answer to the question why has the United States become so much more unequal as a society than it was 30 years ago? The response that the Republicans have come up with so far is to say - oh, that's class warfare. Don't talk that way. In other words, they're in denial.

But most Americans are well aware of this social trend. They live it every day. They see it every day. What we need to see from the Republican candidates is a credible response to the argument which (INAUDIBLE) that the federal government has to do more to counteract inequality through taxation, more taxing of the rich, and through government programs.

Now, there is a Republican answer to that, which is, no, that's not the way to address the problem of inequality, but right now we're not hearing it. We're just hearing denial, and I think that's a very weak and dangerous response for the Republicans.

ZAKARIA: And we will come right back to all this. When we come back, we're going to talk about the Euro crisis. We're going to talk about China, and we're going to talk about the Arab Spring, when we return.

(END VIDEOTAPE)

(COMMERCIAL BREAK)

(BEGIN VIDEOTAPE)

ZAKARIA: We are back with Niall Ferguson of Harvard University; Kishore Mahbubani of the Lee Kuan Yew School in Singapore; and Wadah Khanfar, the former Director General of Al Jazeera.

Euro crisis, Niall, you have long been an alarmist, somebody who said that the Europeans have in effect stuck their head in the sand. They've sort of muddled through and they've muddled through by essentially, correct me if I'm wrong, but using the European Central Bank as a kind of secret mechanism to stabilize things, to inject a certain amount of liquidity, buy and some of that (ph) - can they keep this up?

FERGUSON: Well, you called me an alarmist, Fared. I mean, I've been warning of the dangers of monetary union since the very inception of the idea. And I think the warnings have been not alarmist, but absolutely correct.

What unfolded in Europe after the crisis began 2007 and 2008 was a banking crisis. The Europeans refused to deal with it. It mutated into a sovereign debt crisis and ultimately into a major political crisis.

Now, we are at the point which I would call the cliff edge where Greece is concerned, if it is impossible to reach an agreement on who should bear the cost of writing down Greek's enormous public debt and we're in the course of very fraught negotiations about this, if there's no agreement on that, and the headlines scream disorderly default, nobody knows where the contagion effect will be.

And I'm not just talking about Portugal or Spain. I'm talking about Italy and indeed the entire Eurozone system. So they've muddled themselves through to the edge of a precipice, and we are very, very close to the moment of decision.

The only thing that stopped them going over the precipice as you say, Fareed, has been the European Central Bank finally, finally, printing money the way that the Fed did in the United States. And under its new president, Mario Draghi, the ECB is now behaving the way the Fed did.

ZAKARIA: But why can it continue to do that? Why are we at a cliff's edge now?

FERGUSON: Because that solved the liquidity problem of the bank, but the underlying problems of solvency of both banks and states, those have not been addressed, and nobody yet has a coherent answer as to how these problems will be solved.

Where will the money come from? Because the German taxpayer says not from me, and if it's not from the German taxpayer, then I don't know where it comes from.

ZAKARIA: You know, one answer, Kishore, that people have floated myself included is that actually there isn't enough money in Europe to do a proper - a proper bail-out, and that what you need is to get the IMF involved. But for the IMF to raise capital, it has to go to its main stakeholders, that is the United States. But the principal source of new capital would, of course, have to be China.

Do you think the Chinese - there's an interesting question whether Europeans would go for a solution like this, but do you think that the Chinese are in the mood to contemplate some greater kind of global responsibilities because after all, if what Niall is describing happens, it's terrible for everybody, including the Chinese economy.

MAHBUBANI: Well, I would give a two-part answer. The first part clearly China, India, the rest of Asia does not want to see Europe go over the cliff because, as you said, nobody knows what's going to happen, right? If the Eurozone cracks up, all bets are off. Nobody knows what's going to happen to global economy. So nobody wants that horror scenario to happen.

So as you saw in the London Summit when they suddenly had to inject new money to IMF, China came up with \$50 billion with everybody else, and that kind scenario where you are at the edge of the cliff, everybody else is putting their share, you know, I think China, the other Asian countries will put their share in proportionately and so on and so forth.

But part two of the answer is actually far more important is that the long-term solution for Europe is to go to what's real find growth, long-term growth. What you need is a change of mindset in the European leaders, you know? They never ever understood all the Asian leaders, and, hey, come invest in my country. This is why you should invest in my country. I'll give you this benefit, special economic zone, tax benefits. Now these are the things we've been doing for the last few decades and it's worked. Now, why doesn't Europe try that? And that's what Asians are saying. OK, you start that, we will come and invest in you.

ZAKARIA: Wadah, it's one year since the Arab Spring that captured the imagination of the whole world, and I'd say I think it's fair to say people are a lot less optimistic one year out than they were at the time. Fears center around chaos, around dictatorships that are not really seeding power as in Egypt, the rise of Islamic parties.

How would you assess? Give us a state of, you know, is there a way to assess this young revolution one year in?

KHANFAR: One year ago, if we have this kind of meeting and talking about the Arab World, we would have introduced very grim, depressing, pessimistic picture. Because that whole discussion about Arab World was about that time the survival of the small elite and control of power and in associations with certain sectors of the society who are wealthy.

Now at least we have choice. We have the will of the people. I entrust the people on the future thereabout. Those who have made the revolution are the people on the street, the youth in particular who are well connected, educated. They had brought everyone around certain ideals and they are fervoring the cause until today.

A lot of people may not understand the kind of depression that our generation had gone through during the last of two decades in the Arab world. At least now we can do something. We can talk about it. We can design the future as we would like to see it. I think, yes, the Arab world is definitely going into the right direction.

FERGUSON: Do you give any credit to the United States for having shown the Arab world that democracy can in fact work?

Because after all, it seems to me this whole process really began in Baghdad, the elections that set this ball in motion only happened because of the U.S. intervention, and the overthrow of the first dictator to go down who was Saddam Hussein.

Do you give them any credit at all for that, the Americans?

KHANFAR: In the same token, I will tell you that the Americans at least (ph) in government supported - or took out these regimes, authoritarian regimes for the kids in the Arab world.

FERGUSON: The children. But the near conservative position was not to do that. The near conservative said stop doing that, and we should change the game in the Middle East, and in some ways that near conservative argument which we associate with people (INAUDIBLE) has turned out to be right because by overthrowing Saddam, a kind of domino effect did set itself in motion.

KHANFAR: Actually in my opinion that has proven wrong because the actual path to democracy in the Arab world started from within the public, from within the people. It is an indigenous model that was created, deeply rooted inside the system itself (INAUDIBLE) and the will of the public.

What happened in Iraq, it was imposed from overseas and interjected by the public, and (INAUDIBLE) the democracy of Iraq is not functioning, because of the - of the, you know - this kind of foreign element in it.

And in my opinion, what happened in Iraq delayed the Arab Spring.

ZAKARIA: And we will have to end on that note. I think inevitably Iraq comes up again and inevitably people disagree on it.

Thank you all, wonderful panel. We will be right back.

(END VIDEOTAPE)

(BEGIN VIDEO CLIP)

ANTHONY ALBANESE, AUSTRALIAN TRANSPORT MINISTER: Making Australians afraid of it and telling them who is to blame for it.

PRESIDENT ANDREW SHEPHERD, "THE AMERICAN PRESIDENT," PLAYED BY MICHAEL DOUGLAS: Making you afraid of it and telling you who's to blame for it.

(END VIDEO CLIP)

(COMMERCIAL BREAK)

ZAKARIA: President Obama's State of the Union Speech on Capitol Hill this week marked the 225th time a U.S. president has delivered an annual message to the Congress either orally or on paper.

That brings me to my question of the week, which is what major American foreign policy initiative was announced to the U.S. Congress in a State of the Union message?

Was it, A) The Monroe Doctrine; B) The Marshall Plan; C) The Containment of Communism; or D) The Global War on Terror?

Stay tuned. We'll tell you the correct answer. Go to CNN.com/Fareed for 10 more questions. And while you're there, check out our website, the Global Public Square. We have lots of content from Davos, and there's also fresh insights and analysis from all over the world. You can also follow me on Facebook and Twitter to get my latest thoughts and notes on interesting things I have seen.

And remember, if you ever miss a show or want to save one for posterity, you can now find full video episodes of GPS for sale on the iTunes TV store. Go directly there by typing iTunes.com/Fareed into your browser.

This week's "Book of the Week" is actually a movie of the week and not just any movie, but as of this week, an Oscar nominated movie. "A Separation" is a beautifully made Iranian film. Now, this is not about politics or policy. It's just a great character study. And it offers an uncommon lens into the lives of ordinary Iranians. Not only was it nominated for the Best Foreign Film Oscar, but also for Best Original Screenplay.

And now for "The Last Look." Had enough of Executive Branch speeches this week? Well, here's one more from Down Under. No, don't click away. In what you're about to see a mundane speech by an Australian cabinet minister becomes remarkable, but only when played up against clips of Michael Douglas as the president in the great Aaron Sorkin film "The American President." Take a look.

(BEGIN VIDEOTAPE)

ALBANESE: In Australia, we have serious challenges to solve, and we need serious people to solve them.

SHEPHERD: We have serious problems to solve, and we need serious people to solve them.

ALBANESE: Tony Abbott it's not the least bit interested in fixing anything.

SHEPHERD: Bob Rumson is not the least bit interested in solving it.

ALBANESE: He's only interested in two things.

SHEPHERD: He is interested in two things.

ALBANESE: Making Australians afraid of it and telling them who's to blame for it.

SHEPHERD: Making you afraid of it and telling who's to blame for it.

(END VIDEOTAPE)

ZAKARIA: Coincidence? I'll let you be the judge.

The correct answer to our "GPS Challenge Question" was, A, The Monroe Doctrine, warning European powers to stay out of the affairs of the Western Hemisphere was laid out in President James Monroe's 1823 annual message to Congress.

Thanks to all of you for being part of my special show from Davos, Switzerland this week. Stay tuned for "RELIABLE SOURCES."

