

(Provisional Translation)

Special Address by H.E. Mr. Yasuo Fukuda, Prime Minister of Japan
On the Occasion of the Annual Meeting of the World Economic Forum
Congress Center, Davos, Switzerland
26 January 2008

1. Introduction

Founder and Executive Chairman Professor Schwab,
Ladies and Gentlemen,

Thank you, Professor Schwab, for that very kind introduction.

The World Economic Forum has in recent years come to be regarded as the forum for “regular check up” of the overall state of global political, economic and social systems.

I would like to express once more my great respect to Professor Klaus Schwab for his tremendous foresight and great perseverance in developing this forum thus far, for the past 37 years.

Since I assumed the position of Prime Minister, I have been managing the Government in a domestic political situation, which western politicians may be used to but is challenging for me.

The world is also facing numerous and diverse challenges.

Among them are concern for the future of the world economy stemming from the sub-prime mortgage loan problem, climate change, the fight against poverty towards the achievement of the Millennium Development Goals (MDGs), and security-related issues such as terrorism and the proliferation of weapons of mass destruction. While all of these issues appear quite intractable at first glance, I would rather embrace them positively with a belief that humanity will be put on a path toward a higher stage in the process of overcoming them.

I would like to take this opportunity to present to you an overview of my thinking regarding how we should respond to various socioeconomic issues, with a view to the upcoming G8 Hokkaido Toyako Summit in July.

2. The World Economy

Ladies and Gentlemen,

The risk of the global economy taking a downward turn is increasing against the backdrop of the sub-prime mortgage loan problem in the United States and the surge of petroleum prices to record levels, among other issues.

We have seen the development of new financial techniques and, at the same time, risk has come to be distributed all around the globe through securitization. Yet the corresponding risk management had become overly lax. This, I would argue, is the root cause of the sub-prime mortgage loan problem.

I believe that it is necessary for us to engage in discussions on the state of the global economy and financial markets, including what I would call the “21st century-style crisis” aspect of these problems, so that we can achieve sustained economic growth.

Right now we are in the process of re-evaluating various risks. There is no need to take an excessively pessimistic view of the current situation, but at the same time we do need to have a sense of urgency as we engage in coordinated actions while each country also implements necessary domestic response measures.

In working to resolve the sub-prime mortgage loan problem, there are lessons that can be drawn from Japan’s painful experiences upon the bursting of our “bubble economy.” The first of these is that a swift response is absolutely imperative. Second, it is critical to nip in the bud potential credit crunches resulting from diminished capitalization among financial institutions.

From this perspective, I welcome the efforts of various countries’ fiscal and financial authorities. The fiscal and financial authorities of the major economies have been analyzing the causes of the recent turbulence in the financial markets and are urgently examining various medium- to long-term measures, with this issue expected to be on the table at the G7 meeting in February. I will be working intently to move these efforts forward.

Turning now to the Japanese economy, after the bursting of the economic bubble, the economy stalled for some time, but we have been engaged in decisive action to push through dramatic reforms aimed at invigorating the private sector.

Companies have undertaken far-reaching management reforms, and the Japanese economy has maintained gradual but steady growth over the long term without relying on public spending.

Looking at our financial system, the ratio of nonperforming loans of our major banks has improved to 1.5%. Thus, the nonperforming loan situation is now resolved and we have succeeded in bringing stability to the financial system. Japan’s major financial institutions now stand on solid financial ground, able to provide a smooth flow of capital. Moreover, Japan’s banks and other financial entities have only limited exposure to financial products related to sub-prime loans, making the repercussions for Japan limited.

Yet major structural changes are taking place in the global economy, and moreover, the Japanese economy now faces various challenges, such as the graying of the population. But here again I view these “challenges” as opportunities.

We find that there is ample possibility for Japan to enjoy continued growth as well as coexistence with the environment. We can achieve that by, while squarely addressing sectors

that are lagging in their international competitiveness, further expanding our strengths, such as our well-educated labor force, the high value we place on collaboration, and our advanced environmental technologies, to name just a few.

In keeping with this way of thinking, I will be formulating an economic growth strategy in concrete terms and putting it into action. As part of this, I will continue to advance efforts towards market liberalization, including reforms in the areas of foreign direct investment in Japan, trade procedures, and the financial and capital markets, thereby enabling the Japanese economy to expand in step with growth around the globe.

I feel strongly that continuing such socioeconomic reforms go beyond simply benefiting Japan; in light of current circumstances, it is also our obligation as a member of the international community.

3. Climate Change

Ladies and Gentlemen,

The G8 Hokkaido Toyako Summit will take up discussions on the future of the planet, and it is an ideal opportunity to open perspective towards a bright future. Climate change is top priority.

Global environmental issues have now gone beyond the discussion stage to become real problems with significant effects on our day-to-day lives and economic activities. This constitutes a major new challenge for humanity, as we could be courting catastrophe in both the natural environment and our socio-economic activities if we stand by and do nothing.

Last year, Japan proposed the “Cool Earth 50” initiative, calling for a halving of global greenhouse gas emissions by 2050.

Today, I would like to present to you my “Cool Earth Promotion Programme” which will be implemented through the following three parts. This is my proposal.

These are, post-Kyoto Framework, International Environment Cooperation and Innovation. I will immediately start working to implement this proposal.

First, the post-Kyoto Framework. The Intergovernmental Panel on Climate Change, or IPCC—the scientific panel that was awarded last year’s Nobel Peace Prize—has warned that if we are to avert a catastrophe, it would require global greenhouse gas emissions to peak in the next 10 to 20 years and be reduced by at least half by 2050. I call on the United Nations to examine at the earliest possible time strategies and measures to bring about this peak and halving of emissions.

At the Bali conference, agreement was reached to aim to establish by the end of 2009 a new framework governing greenhouse gas emissions reductions that would follow upon the Kyoto Protocol now in force. In order to ensure the peaking-out of global greenhouse gas emissions, it is absolutely critical to create a mechanism in which everyone participates,

including, inter alia, all major emitters.

As the chair of the G8 Summit, I am resolved to take on the responsibility in working towards the establishment of a framework in which all major emitters participate as well as the setting of fair and equitable emissions target. Within that context, Japan will, along with other major emitters, set a quantified national target for the greenhouse gas emissions reductions to be realized from now on. In setting this target, I propose that the equity of reduction obligations be ensured. The target could be set based on a bottom-up approach by compiling on sectoral basis energy efficiency as a scientific and transparent measurement and tallying up the reduction volume that would be achieved based on the technology to be in use in subsequent years. The base year should also be reviewed from the standpoint of equity. Without equity, it will be impossible to maintain efforts and solidarity over the long term.

There is no time to lose in addressing climate change. We have a readily available means of taking action without waiting for the agreement on a post-Kyoto framework. This is the second part of my proposal, International Environment Cooperation.

It goes without saying that aiming at the most efficient use of energy is now an obligation upon humanity. For the time being, until when innovative technologies that will drastically reduce the emissions of greenhouse gas become practically available, the whole world must make efforts to maximize the improvement of energy efficiency.

Japan is dependent on other countries for its energy resources, and ever since the First Oil Crisis, Japan has been committed as a nation to energy conservation. Over the last 30 years, we have succeeded in doubling our real GDP without increasing the overall energy consumption of the industry sector. This demonstrates that Japan succeeded in the simultaneous pursuit of both economic growth and environmental protection.

What Japan can take action is to transfer high quality environmental technology to a greater number of countries. For example, if the level of efficiency in Japan's power plant is achieved in the three countries of the United States, India, and China, the resulting CO2 emission reductions would amount to some 1.3 billion tons - the equivalent of Japan's annual total emissions. I propose to set a global target of 30% improvement of energy efficiency by 2020.

The other pillar of International Environment Cooperation is assistance to developing countries that are aiming to achieve both emissions reductions and economic growth and working to contribute to climate stability.

As one measure, Japan will establish a new financial mechanism, Cool Earth Partnership, on the scale of US\$10 billion. Through this, Japan will cooperate actively with developing countries' efforts to reduce emissions, such as efforts to enhance energy efficiency. At the same time, we will extend the hand of assistance to developing countries suffering severe adverse impacts as a result of climate change. In addition, Japan aims to create a new multilateral fund together with the United States and the United Kingdom, and we call for participation from other donors as well. We will use such instruments to strengthen our solidarity with developing countries and work towards the reduction of greenhouse gases globally.

The third part of my Cool Earth Programme is Innovation, which includes the dual aspects of development of innovative technologies and a shift to a low carbon society.

In order to halve greenhouse gas emissions by 2050, it will be absolutely critical that there be breakthroughs in technological innovation. This is a very challenging task, and it will require a tremendous investment in technology. Japan will be accelerating the development of technology of zero CO2 emission coal-fired power plants, as well as low-cost, high-efficiency solar power generation technology that can be mounted on rooftops around the world, and Green IT, among others. Japan will be emphasizing investment in research and development in the fields of the environment and energy, and over the next five years, will be investing approximately US\$30 billion in this effort. To add to this, I propose that we formulate an international framework through which we can collaborate closely with international agencies such as the IEA to accelerate technology development and share the fruits of such efforts.

Not limiting our efforts to technological measures, I have decided that in order to shift Japan to a low-carbon society, in the near future, we will undertake a fundamental rethinking of all our societal systems, including our production systems, our lifestyles, and the state of our cities and transportation. We will seek to expand this low-carbon society both at home and abroad and play a leading role in transforming the globe into a low-carbon planet.

Global environmental problems are the most challenging issues that humanity has ever faced, and there is no question that this battle in which we find ourselves will be a long one. With the United Nations at the center, people from all walks of life and all kinds of stakeholders must summon their wisdom as well as their courage to take on these challenges. Let us be aware that we have no time left.

As we will discuss these issues at the G8 Hokkaido Toyako Summit, the Summit will be conducted in a thoroughly environmentally-friendly manner, including through the use of carbon offsets.

What I have just laid out as the Cool Earth Promotion Programme is my own initiative as the chair of the G8. I will seek the cooperation of my colleagues, the other leaders of the G8, to advance further the resolution of these issues at the G8 Summit, which the world is eagerly awaiting.

4. Development and Africa

Ladies and Gentlemen,

Another major topic for the G8 Summit is that of development and Africa.

I aspire for Japan to contribute to the enhancement of peace around the world as a “peace fostering nation.” Japan will be fostering peace by peaceful means. Providing assistance for the development efforts of developing countries is an important means to this end.

With regard to Africa, I will be convening the Fourth Tokyo International Conference on African Development, or TICAD IV, in Yokohama in May to advance discussions on African development under the theme of "Towards a Vibrant Africa."

The G8 Summit, under the theme of development, will take up development issues around the globe, including those of Africa. At the turn of the century, international society set forth the Millennium Development Goals to fulfill its high ideals. This year marks the halfway point for achieving those goals, which are to be realized by 2015. From the perspective of "human security," I intend to focus on health, water, and education at the G8 Summit.

First of all, I will touch upon health issues. Eight years ago, when Japan hosted the G8 Kyushu-Okinawa Summit and invited African Leaders to the G8 Summit for the first time, we focused our discussions on infectious diseases. Following this summit, Japan worked to establish the Global Fund to tackle the three major infectious diseases. To date, the lives of some 2.5 million people have been saved through the efforts of this Fund. However, among the health-related Millennium Development Goals, the issues of safe motherhood and health of children under five years of age in particular remain serious as before, with some 500,000 pregnant women and 10 million children under five years dying annually. Another important issue is the shortage of human resources in the health field.

With the aim of changing these situations rapidly and significantly, I propose the advancement of comprehensive cooperation in global health. Such efforts cannot be shouldered by the governments of the G8 alone. We must instead formulate a framework for action to raise the overall level of the health care system, with the participation of all relevant stakeholders, such as international organizations and health policy experts with expertise and experience, NGOs active in local communities, civil society groups and private sector entities. I would like these efforts to become an exemplary model of a new form of international cooperation suited to the 21st century, namely a participatory approach in which all relevant actors participate and collaborate.

Next I will move on to the issues of water. As global warming progresses, water issues should also be discussed at the international level. Water-related disasters constitute a serious threat. Without a safe water supply, good health cannot be achieved, and without access to water, there can be no development. I intend to promote international cooperation for the effective management of water, a cycling resource.

The issue of education is also a challenge. For all people and all nations, education is the basis for engendering self-reliance and development. In order to achieve the Dakar Education For All goals, which aim at the expansion of high-quality basic education, it will be necessary to strengthen international collaboration. Japan, for its part, will provide further educational opportunities that can serve as a booster for development, including vocational training and secondary and higher education, to people with aspirations.

I would now like to turn to African development and discuss some of the topics for the upcoming TICAD meeting.

I believe that self-reliance and mutual cooperation are the fundamental principles governing countries' development. Development assistance should be based on self-help

efforts by developing countries. As a basic principle we work to assist in cooperation and with mutual respect to enable self-reliance.

Economic growth is absolutely critical in order for sustainable development to be realized. For eradication of poverty in Africa it will be essential for us to boost Africa's economic growth and support African self-reliance. Through its own initiative, Africa is currently formulating a strategy for enhancing the infrastructure that will form the basis for its future growth. However, the financial resources and institutions necessary to realize these goals are still far from adequate. In cooperation with the countries of Africa and the international community, Japan intends to put forth a blueprint for region-wide infrastructure development, including for example a road network and electricity grids, with a view to creating an appealing environment that will attract private investment.

A factory in Arusha, Tanzania, manufacturing insecticide-treated Olyset mosquito nets provides one example of private investment success. The launch of this factory has resulted not only in employment opportunities for the local people and the generation of greater income but also a reduction in the malaria infection rate in infants. Thus it has been contributing to the achievement of the Millennium Development Goals.

At the same time, it goes without saying that, in order to accelerate growth in Africa, expansion of trade and investment is indispensable. Furthermore, since roughly 70% of the population lives in rural areas the improvement of agricultural productivity is also critical. For that reason, we will be working to deepen discussions regarding the efforts being undertaken by the countries of Africa in this area and assistance towards these efforts by the international community.

I think that all of you are familiar with the fruit of the shea tree. The "butter" that is obtained by processing the nuts is prized as cooking oil, moisturizing creams and an ingredient in soaps. In rural villages in Ghana, Japan has provided assistance to improve shea butter production techniques, organize the local residents, and train people in the production of high-quality soaps. As a result, Japanese companies have come to start importing this shea butter, leading to higher incomes for the local people. This is an excellent example of how the One Village, One Product Movement, which supports the production and marketing of local specialty goods, has revitalized local economies at the community level.

Last year here at Davos, Mr. Donald Kaberuka, President of the African Development Bank Group, spoke about replicating the Asian miracle in Africa.

Asia's development towards self-reliance is a tribute to the efforts of the people of Asia. Japan acted as a partner, supporting their efforts through assistance for economic growth and the development of human resources. And Japan intends to actively promote south-south cooperation between Asia and Africa on the occasions of the G8 Summit and TICAD.

Peace is a primary prerequisite for development. Peacebuilding is one of the pillars of Japan's policies as a "peace fostering nation," the concept of which I have been promoting. Japan has already been vigorously working towards cooperation for countries' rehabilitation and reconstruction. Furthermore, we will be extending new cooperation to PKO centers

around Africa in order to enhance Africa's own peacekeeping capacities.

You can see that this principle of "self-reliance and mutual cooperation" is exemplified here in very concrete terms, namely that your own peace comes through your own efforts, and Japan supports Africa in its efforts to attain peace.

I will be sharing the results of TICAD IV with other G8 Leaders at the Hokkaido Toyako Summit. Moreover, in the autumn at the United Nations General Assembly, as the chair of the G8 Summit and the host of TICAD, I will be reporting on the results of these two meetings so as to share them with the rest of the world.

5. Conclusion

Ladies and Gentlemen,

No miracle cure exists for the problems I have discussed here today. Nor can these challenges be resolved by any single country on its own. Thus, first and foremost, it is critical that all actors concerned implement steadily the concrete measures to which they have already committed.

Japan is a country that has been steadily fulfilling its commitments.

In addition, Japan possesses not only the state-of-the-art science and technology that the world needs, but also the track record and experience gained from its success in achieving a high rate of economic growth. Japan will exercise leadership rooted in these achievements in the interest of enhancing the stability and prosperity of international society.

It is my view that the key phrase for taking on the new challenges that have emerged in the 21st century is "a participatory approach." We need to bring about collaboration among governments, the business sector, civil society, and academia by achieving synergies among countries and among individuals.

And Davos symbolizes exactly that. Those present today are trailblazers who have put such collaboration into practice. With your kind cooperation, I am determined to work hard to fulfill my responsibilities as the G8 chair of this year.

Thank you for your kind attention.