

**THE BROOKINGS INSTITUTION**  
**CENTER FOR NORTHEAST ASIAN POLICY STUDIES**

**WORLD IN CRISIS:  
CHARTING A WAY OUT**

**H.E. Ichiro Fujisaki**  
**Ambassador of Japan to the United States of America**

*The Brookings Institution*  
*Washington, DC*  
*November 10, 2008*

[REMARKS AS PREPARED FOR DELIVERY]

**Congratulations.**

**America has once again proven that it can give HOPE to people around the world.**

**Please do not think that I am saying this because I am at Brookings today.**

**We are ready to work with you.**

**Today, we are facing seismic challenges.**

**Economic growth, which brought stability to many quarters of the world in the last decade, can no longer be taken for granted.**

**Many emerging economies have grown rapidly in recent years thanks to their exports.**

**Other developing countries began to follow their trail.**

**Developed countries had absorbing capabilities in their markets for the products of developing friends and had also been able to expand their development assistance.**

**We have to face squarely with the possibility of these fundamental premises changing.**

**Second, the UN has become much more usable in the last decade.**

**Russia and China have shown support in sanctions against Iran or North Korea.**

**In view of the recent developments surrounding Russia, we have to ask ourselves if this can be continued.**

**However, I am not going to discuss this issue.**

**I will mainly focus on some economic and environmental issues that we are facing.**

**Ladies and Gentlemen,**

**Today, we are struggling in Japan like others to cope with huge economic challenges.**

**The problem that started here has had great significance in Japan as well.**

**People who talk about decoupling just do not know the economy or have some interest in making such arguments.**

**No, the world is well connected, coupled.**

**In order to meet such challenges, we have to be conscious of 3 things in particular.**

**Confidence restoration, staying in control, and concerted action.**

**We may call them the 3Cs.**

**Confidence restoration**

**The importance of confidence restoration comes from our experiences in the last decade.**

**For example, today, we are seeing a credit crunch.**

**It is brought about not from lack of funds but from lack of credibility.**

Now, banks no longer trust each other.  
In order to have the confidence in banks and the market restored, transparency—or predictability—fairness and speed are all key elements.

Let me elaborate.

Japan's financial institutions were heavily affected by non-performing loans after the bubble erupted in the early 90's.

It took years to identify non-performing loans.

This is because banks were weary of being labeled as problematic banks possessing bad loans.

In the end, the need to be saved superseded these concerns.

Second, of course, people were unhappy about the injection of public money into private banks.

They were not convinced that "greedy and affluent" bankers should be saved at their own expenses.

The 2Ws, Washington bureaucracy and Wall Street, are not so popular here. In Japan, the 2Ks, Kasumigaseki bureaucracy and Kabutocho, the district of stock companies, or Kinyukai, the world of bankers, were never popular as well.

Disclosure of all the relevant information was the only way to get public understanding on necessary measures.

Measures taken had to prove themselves to be fair and not unduly burdening taxpayers.

We thus learned that transparency and fairness were the key to obtaining the people's understanding.

This finally paved the way for public money injection.

In order to address the weariness of banks that I mentioned above, better performing banks were asked to accept the injection as well.

It was a bit like the Ali Baba story in the Arabian Nights—mark all the pots and you will not know which is the target.

Japan injected around 500 billion dollars altogether.

100 for buying up non-performing loans, 120 for injection, and 100 for assuring deposits.

This is sizable in view of the fact that Japan's GDP is one third of that of the US.

After taking these steps, today, non-performing loans which consisted 8% of the assets of Japanese financial institutions are down to around 2%.

It took an agonizingly long time.

If we were quicker, our scars would be shallower.

We learned that speed was indispensable.

This is why our Finance Minister Mr. Nakagawa stressed the importance of the quick injection of public money at the last G7 Ministerial Summit.

We commend the US for coming up with the economic package very rapidly last month.

Today, Japanese financial institutions are in a far healthier position than before.

Some of them came to help their colleagues in this country.  
But nonetheless, our economy as a whole will be affected.  
Therefore, Japanese Prime Minister Aso is saying that we need a grand design to cope with these issues.  
He maintains that we will need 3 years to recover in Japan.  
To show a roadmap and enhance predictability is the only way we can restore the confidence of the people.  
In order to boost the domestic economy, he presented an economic stimulus package of up to around 270 billion dollars.  
Of course, the situation surrounding the US is more complicated than what Japan experienced before.  
At that time, the securitization of mortgages did not exist in Japan.  
So called leverages, or the ratio of real asset to borrowing capability, were far smaller.  
Moreover, it was not a worldwide problem, so there was a leeway of export.  
However, the very essence of the need to restore confidence by promptly introducing measures to secure transparency, predictability, and fairness is not different.

In this regard, I would like to make some comments about the responsibility of leaders and pundits.  
It is easy to call this a once in a century tsunami.  
It may encourage policy makers to take drastic measures.  
But the downside of that is the discouragement of investments and consumption.  
It goes without saying that the economy is more psychology than mathematics.  
I remember PM Koizumi said in the beginning of his tenure that the Japanese were over confident in the 1980's but after ten years they are exceedingly pessimistic.  
He stated that the truth must be somewhere in between.  
He thus tried to encourage people.  
He was not an expert on the economy, but he knew that it was necessary to not discourage entrepreneurs or consumers in the market economy.  
Let us not play the role of the doomsday prophet.  
The economy, after all, is nothing but a self-fulfilling prophecy.

### Staying in Control

Now let us turn our attention to staying in control.  
This, I think, is something which a lot of pundits are expected to be good at and in reality are not so much so.  
Let me cite the example of the relationship of a boat to a stream.  
This is not a metaphor because this is what I learned through my horrible experiences while trying to get a boat license in Switzerland.

**There, unlike in very nearby France, you are required to be in exact control of the boat, even on a very windy day—as precise as chronometers. I learned that when you are in a very fast stream, logically you have four alternatives.**

**One, to simply let the boat ride the current.**

**In other words, to drift.**

**It is easy, but of course only the current knows where you are headed.**

**Two, to resist the current and steer the boat against it.**

**Certainly brave, but you may be a left behind at best.**

**Your boat could even be toppled.**

**Three, to accelerate the boat faster than the current to get ahead of it.**

**This is the temptation the brightest people are often seized with.**

**This way you will have the satisfaction of out-speeding the current.**

**But are you truly heading towards the direction in the speed you originally wanted?**

**Four, to use the current as necessary but stay in firm control of the boat.**

**At times, you may be slower than the current, and, at times, you may be just equal to the current.**

**You may feel less excitement compared with the third alternative, but eventually you will arrive at the place in the time you had planned.**

**You know what I am talking about.**

**Today, the speed of the stream is very rapid.**

**In such times, how to stay in control of the situation is our task.**

**We have to resist the temptation to be ahead of the stream.**

**Some leaders today suggest fundamental changes in global financial institutions, such as IMF and the World Bank, are needed.**

**Some say that we need to expand the present G7 or G8 as they are becoming obsolete.**

**To be frank, I doubt their wisdom.**

**First of all, we are on fire.**

**This is not the time to indulge ourselves in discussions of the improvement of the design of fire extinguishers.**

**It is the time to use them.**

**If there are problems, we should adjust ill-functioning bulbs to make them more usable.**

**Now, we are relaxing the conditionality of IMF facilities.**

**Multilateral financial institutions should know that there is something more important than balancing the budget.**

**That is to help sustain democratic governments.**

**In order to help developing economies, Japan has appealed for the need to strengthen emergency lending by IMF and also expressed its readiness to make its own contribution.**

**We can also add on to what we have regionally, like the Chen Mai initiative in East Asia.**

**In the coming summit of 20 countries, we will be proposing a coordinated international framework for supervisory systems, the review of accounting standards, and the development of credit rating agencies to Asian and locally issued bonds.**

**However, these are just adjustments.**

**We do not think it is adequate to question the fundamental credibility of our system.**

**We should also recognize that the G7 and G8 have served and are serving well as the coordinating body of like-minded countries.**

**Those who criticize this body make the following arguments:**

- We can no longer discuss economic issues without involving the biggest foreign reserve holding country China and developing countries which will be hardest hit.**
- Moreover, the G8 is repeating similar discussions every year and going nowhere.**

**Yes, it is appropriate to have larger groups as necessary.**

**Regarding the G8, we have dealt with this in the form of outreach.**

**It started with the Okinawa G8 Summit in 2000 and has continued from then.**

**With regard to the financial issue, there is the upcoming summit of 20 countries.**

**It was right of the US to call this summit on the 15<sup>th</sup> of November.**

**This is not the time to discuss the configuration or composition of participants.**

**As for the topics of the G8, when I was chosen as a G8 sherpa 6 years ago, at first I did not know myself why they were discussing a seemingly similar range of issues every year.**

**After some time, I began to understand that this was an annual health check up of our system as a whole.**

**Our system of democracy and market economy faces many challenges or termites.**

**Proliferation of WMD, terrorism, global warming, HIV/AIDS, and development issues.**

**We analyze every year and see what more we can do about them.**

**Sure, we may get similar results.**

**But do we stop our annual health check up just because we are told similar things by doctors every year?**

**Eat less, exercise more, stop smoking etc.**

**This is not the time to launch trial balloons to show that you are not left behind in the stream.**

**Let us control our boat.**

**Let us resist the temptation to be ahead of the stream.**

**Let us move quickly enough but not over react.  
Let us use what we have effectively.**

### **In Concert**

**Today, there is no need for detailed arguments for policy coordination in order to cope with financial issues.**

**No one thinks one country alone can cope with a financial issue of this magnitude.**

**Consultation is carried out daily through communication between central bankers and the government officials in charge.**

**Today, I would like to emphasize that the US and Japan have special responsibilities.**

**Japan is No. 2 in the world in GDP, UN contribution, 10 years of aggregated ODA, contribution to Iraqi reconstruction, and research and development budget.**

**No.1, needless to say, is the US.**

**Japan is No. 2 in possessing foreign reserves and No.1 in possessing US treasury bonds.**

**We have to work together to meet the expectations of the rest of the world and to save our economic system as a whole.**

**In this regard, let me touch upon one specific area our cooperation is especially needed.**

**The environment.**

**Today, when the economy is affected negatively, the interest of businesses in cooperating with long term issues such as global warming may diminish.**

**They may say that they have to be more mindful about tomorrow's bread than the situation 40 years from now.**

**No, we cannot slide down this slippery slope.**

**This is exactly the time to step up and show political will.**

**It is the devoir, or obligation, of big countries to set an example.**

**In the 50's and 60's, when Japan was trying to recover from WWII, environmental issues were not our priority.**

**As a result, Japan was one of the most polluted countries.**

**Big cities were covered with smog.**

**Health hazards proliferated.**

**People were belatedly convinced of the need to introduce a new set of regulations.**

**There was also a movement in the US to introduce regulations.**

**Japanese pollution related standards went through a sea of change.**

**Let us look at the example of automobiles.**

**In 1978, Japan introduced ahead of others standards to lower 90% of NOX emissions from the level of actual emission in the 1970's.**  
**In other words, the Muskie Act, which was not enacted in the States until the 90's, was first introduced in Japan.**  
**Private business of course resisted in the beginning.**  
**But they soon realized that this has given them golden opportunities to compete with rivals around the world.**  
**They found that it was a fair deal to their business in the end.**

**As a country which has almost no natural energy resources, Japan was hard hit by oil price hikes in the 1970's.**  
**This has also given us an opportunity to change our economy to that of an energy-saving nature.**  
**In addition to new technology and the use of nuclear energy, the philosophy of the 3Rs, 'Reduce, Reuse, and Recycle,' has contributed as well.**

**Today, according to IEA statistics, in order to produce one unit of GDP, the US and EU need respectively two times as much energy, Russia 17 times, China 9 times, India 7 times, as Japan.**  
**Our share of GDP in the world is 8%, and our CO2 emissions constitute 4.3 %.**  
**For China, GDP is 6% and CO2 emissions 20.2%.**

**I am not trying to boast of our achievements.**  
**On the contrary, we hope to save developing countries from following in our footsteps.**  
**Patients with health diseases caused by pollution are still suffering after decades.**  
**No, people do not need to follow our paths.**  
**This is exactly why we are distributing more than 30% of our ODA to environmental areas.**  
**This is why Japan announced this year its contribution of 10 billion dollars to assist the mitigation and adaptation efforts of developing countries.**  
**This is why Japan said we are ready to make 60 to 80% reductions of CO2 by 2050—that is doing more than developing countries.**

**The next year is crucial**  
**We will be discussing the Post-Kyoto Framework by the end of next year.**  
**We have to live up to the expectations of the world.**  
**The US and Japan have unique responsibilities in this regard.**  
**Let us work hand in hand.**

**I thank you.**