

Translation

Opening Address by Angela Merkel, Chancellor of the Federal Republic of Germany, at the World Economic Forum on 24 January 2007 in Davos (transcript)

Madame Federal President,
Professor Schwab,
Excellencies,
Ladies and Gentlemen,

Thank you very much for inviting me to speak to you this year. For me the motto of the Forum, "The Shifting Power Equation", sums up the global situation. The world economy is undergoing an unbelievable process of change, and many things we thought were totally immovable are being shifted around. We should constantly remind ourselves that this development was set in motion by three historic events within the space of just over fifteen years – first, the fall of the Berlin wall and the reintegration of Central and Eastern Europe, as well as of Russia, into the global economy; second, the technological revolution in IT and communications – we should merely consider that the number of sent e-mails increased by a factor of 215 between 1997 and 2005 –; and third, China's, India's and other countries' transition from static to dynamic economies and their quantum leap onto the world markets. This last process has meant that one-third of the world's population has changed from spectators on the global stage to actors.

This means that the perspectives are changing. We, the established actors, say that the situation has become less clear, while the new actors say that there are now greater opportunities. The fact is that a completely new global balance of power is being created. The positive thing about this is that today the world's economic potential rests on many more shoulders than even ten years ago, as can be seen from the extraordinarily high and sustained global economic growth rate. This benefits all of us – the industrial countries, the emerging economies and the developing world.

The challenge in this is that old habits, perquisites and inherited rights no longer guarantee success. The old hierarchies are being flattened. As the American journalist Thomas Friedman has said, the world is flat. Resources, potentials and power can shift completely overnight. Yesterday the Swiss Prognos institute published a study which states that in two years' time, in 2009, China will replace the world export champions for the past half century, Germany and the US, at the top of the league table.

But of course this challenge not only faces the classic industrial countries. To put it bluntly, those who see themselves as tomorrow's winners must not be too sure of still being on top the day after tomorrow. Let me give you an example – I have heard from a German machine-building SME, KTR Kupplungstechnik, a highly specialized firm with over 40 subsidiaries, engineering offices and distribution partners worldwide, that its Chinese customer has moved its weaving production line from China to Botswana because the wages there are lower! This shows how fluid the whole process is. But it also shows that if we get things right all three sites can benefit – in terms of jobs, export opportunities, investment, know-how transfer or indeed tax revenue.

Nonetheless this example also highlights the downside of globalization. Hope for one side means worry and fear for the others. We politicians know these concerns only too well and we must therefore do all we can to shape globalization in political terms. We must not neglect this aspect because people look to us and ask what we are doing to give globalization a human face. We know that within individual economies the consequences of globalization vary widely, and that there are still many countries cut off from the global upswing. In addition, the global competition is accelerating the rate of destruction of natural resources. Intellectual property protection is being eroded. It is obvious that many of the answers found to these questions to date no longer work properly, or that we still don't have answers to many questions.

This means that dealing with the consequences of globalization is above all an intellectual challenge, not least for Europeans. During the past 200 years we, and indeed Europe as a whole, became accustomed to taking a highly Eurocentric view of the world. Today we see that this simple view no longer applies. To take up this year's Davos motto once again – today's equation of power contains many more variables than was previously the case. This makes many people insecure, particularly in Europe.

So what would be more obvious for Europe than for it to just hold its ground and cut itself off from the rest? We know that even in 2011 the European Union will still contribute four times as much to the world economy as China. Would it not be a successful strategy to exploit our strengths ruthlessly, secure the global resources necessary for our own prosperity just in time, and build a few walls to conceal our own weaknesses? My short and sweet answer is no. I'm firmly convinced that the process of globalization is one of liberalization because, as Benjamin Franklin, one of America's Founding Fathers, once said, "those who would give up essential Liberty, to purchase a little temporary Safety, deserve neither Liberty nor Safety."

For that reason, more freedom for new security is the guiding principle by which we – and here I'm speaking as the current EU Council Presidency – want to make Europe fit for the future. In some sectors, for example energy or services, the European market is far from complete. We want to and indeed must make progress on this. We therefore support the European Commission in its ambitious aim of reducing bureaucracy by 25% by 2012. This also means that we in the Member States have a duty to take every effort to follow suit.

I'm convinced, however, that we will only be able to tackle all the challenges facing Europe if we pool our strengths. When the European Community was founded Europeans made up about 21% of the world's population, today that figure is around 11%, and by mid-century it will have fallen to about one-third of the original share, i.e. 7%. Therefore we in Europe are increasingly less able to afford division.

But with today's setup Europe is scarcely able to take adequate action, and thus I am convinced that the European integration process now needs to be consolidated in a way that is geared to the new challenges rather than the old. We also know that the EU cannot be extended if the status quo is maintained. This is why we have said that during Germany's EU Presidency we need to restart the constitutional process. To that end, in June, we want to present a roadmap aimed at safeguarding Europe's effectiveness. We know, as proved by the failed referendums in France and the Netherlands, that if we want to achieve this we need citizens who trust this Europe. This means we must place greater emphasis on our shared vision. We must show the citizens that the EU is good, that it is important for them personally, and that it will improve their lives.

On 25 March 2007 we will celebrate the fiftieth anniversary of the signing of the Treaties of Rome in Berlin. We will thus have a unique opportunity to reaffirm our shared vision in the city which stood for the Cold War and the division of Europe. This means that Europe can be successful if it acts together, but it must show the citizens that this action is for their prosperity and stability.

As Germany's Chancellor – let me digress for a moment – I am aware that as the EU's largest economy Germany has a major responsibility in this regard, as Europe can only prosper if Germany is economically strong. So last year we set ourselves the target of getting Germany back among the EU's top three within ten years in terms of growth, jobs and innovation. If we look at the latest economic data we can say that we have got quite a lot closer to that target already. In spite of increasing competition German firms have not only held on to their market

share but in some cases even raised it. Unit labour costs are finally falling, as is unemployment. More jobs are being created. We will reduce company taxation to under 30%, and state new debt will this year in all probability be lower than at any time since German reunification. The public sector share of GDP, too, is at its lowest level since 1990.

I am telling you this today because I know that economic success brings with it a greater responsibility to share our peace, prosperity and development with other parts of the world. This means helping to make sure that coming generations can live in a really liveable way, not just in some parts, but worldwide. One of the major realizations of our times is that although our world is becoming more varied – there are ageing and very young societies, countries whose prosperity is based on raw materials and those whose sole resource is their people's education and ideas, regions threatened and afflicted by religious and political tensions and those where that threat is absent – but we are all facing the same great challenges to a much clearer extent than we previously thought: Safeguarding free and fair world trade, stabilizing financial markets which are increasingly integrating, protecting against international terrorism, securing energy supplies, combating climate change and dealing with migration due to poverty.

So there is a simple reason why Germany and Europe must not merely engage in navel-gazing but rather look further afield. It is in our fundamental interests to together tackle these challenges facing the world. To quote an African proverb, "if you want to go fast, go alone. If you want to go far, go together." I think we should take this wisdom to heart, in fact this is exactly how we want to meet Germany's and indeed the EU's responsibility in the world. This will of course be clearly reflected in our agenda during Germany's EU and G8 Presidencies. Many themes are important to both organizations, and so our concurrent Presidencies give us the opportunity to generate synergies.

We deliberately gave our G8 Presidency the motto of "Growth and Responsibility". Growth remains for all countries the basic prerequisite for achieving more employment, higher living standards and greater resource productivity. But growth is not an end in itself. It must be created equitably, not through unfair measures. Global competition must therefore in my firm opinion be placed within an international framework. It is precisely here that politics comes into play, as politics has the responsibility for this framework.

We have therefore set ourselves the goal of putting economic themes back to the forefront of the agenda during our G8 Presidency. We want to increase the options for global investment and are committed to the equal treatment of cross-border and domestic investment. We want

to continue the G8's joint efforts to reduce the strong global imbalances, for example in exchange rates or oil supplies. We want to minimize the international capital market's systemic risks while increasing their transparency. Let me make it very clear that I see much room for improvement, especially regarding hedge funds. We want to support innovation, as the key to growth and prosperity, and markedly advance the effective worldwide protection of intellectual property. We want to supply impulses for climate protection, greater energy efficiency and increased security of supply.

When I say all this I am aware that the tasks facing us are truly massive. Therefore we must realize that only a unified G8 approach can help persuade the emerging economies, with their dynamic economic growth, to join us in our shared global responsibility. Any other approach will fail. Therefore my aim is for Germany's G8 Summit, in Heiligendamm in June, to place special emphasis on new forms of dialogue with the major emerging economies, i.e. Brazil, China, India, Mexico and South Africa. The Summit will initiate that dialogue and pass it on to other international organizations because we need a coherent, joint approach in the many international bodies.

I'm convinced that the sine qua non for global growth are open world markets. The World Bank has established that growth has increased considerably in those countries actively participating in globalization. It has fallen, however, in those countries which have opted for self-isolation. This applies to both industrialized and developing countries. It is therefore in everyone's interests that the Doha Round succeeds. I hope that key talks can be conducted on this during the next few days. There is undoubtedly a chance of success. However, the positions of Europe, the United States, emerging economies and developing countries have to converge. We all have to be flexible. Responsibility for making the Doha Round a success rests on many shoulders. Failure would, however, be a severe setback. I want to stress that we should not focus solely on the agricultural sector. We also desperately need to make progress in the negotiations on industrial goods and services. This concerns the industrialized nations' key interests – I am aware of that. A fair balance is therefore required. We have to use the little time at our disposal for making progress in the negotiations.

What's more, I believe it's essential we intensify transatlantic economic relations. This isn't intended to be contrary to, but rather to supplement and support, the multilateral approach. History has shown us time and again that close transatlantic economic ties have always generated sustained increases in growth. That began in the 19th century when investors from Europe were heavily involved in the financing of the American railway network, which was of vital importance to America's industrial development. Conversely, we remember that after

the Second World War, when Europe's economies were in a critical state, capital flowed from America to Europe within the framework of the Marshall Plan. This laid the foundation for reconstruction – not least in my own country.

The US continues to be the European Union's most important trading partner, indeed we are also each other's most important investment partner. I believe the potential for cooperation hasn't been fully exhausted yet. I am talking here about non-tariff trade barriers, for example technical standards, rules for financial markets, issues in the spheres of energy, the environment and intellectual property. I see much need and scope for action here. The different regulatory approaches on both sides of the Atlantic generate totally unnecessary transaction costs. These can be reduced. We should aim to create structures similar to those of an internal market. These issues will be addressed at the European Union's summit with the US in Washington on 30 April.

I want to emphasize again that this approach would be absolutely disastrous if it were to be directed against others. Or let me put it the other way round: this approach is not directed against anyone. What's more, other countries with close trading relations with Europe and the US would benefit from greater economic integration. I invite every country which promotes free trade and investments to join our initiative.

Ladies and gentlemen, it's becoming increasingly clear that we all – Europe of course but I also mean other regions – have to look beyond our own noses. Otherwise we won't be able to shape globalization. That's why the question of how we can better integrate Africa into the global economy is another priority of Germany's G8 Presidency. Africa has a population of one billion. We want more to be invested on this continent and growth and employment to be placed on a broader basis. At least we can say that economic growth in sub-Saharan Africa has been 4% on average during the last five years. According to the World Bank, this is partly due to the greater integration of these countries into the global economy. Contrary to some headlines in the European media, we know that Africa now has more economic growth, more democratic governments and less conflicts. We can build on that and we have to seize these opportunities. There's still so much to do.

What we need more, above all, is a responsible approach to natural resources and the development of independent African capacities for conflict management and post-conflict peacebuilding. This not only makes things easier for private investments. It also strengthens the position of African states as equal partners when it comes to access to and control of Africa's raw materials. For one thing must not be allowed to happen, namely that Africa is

again treated unfairly in the 21st century in a fight for raw materials. Germany's President once said: "The humanity of our world will be measured against the fate of Africa". I believe he was right.

We know that AIDS is undoubtedly one of the great challenges of our time not only, but particularly, in Africa. Some 40 million people around the world are infected with HIV. Roughly 70% of them live in sub-Saharan Africa. It is estimated that one third of all gainfully active people will die of AIDS during the next 20 years. In the past, the G8 states have launched major initiatives, most importantly the Global Fund on Combating AIDS, Tuberculosis and Malaria". However, I also want to say that we can't stop there. In September we'll be holding a conference in Germany at which we intend to assess the activities of this Fund and, above all, at which we have to ensure that it is replenished. With regard to AIDS, we want to make the fate of women and children a top priority of Germany's Presidency.

Ladies and gentlemen, that global challenges can only be mastered through extensive international cooperation was also highlighted by the two greatest challenges facing humanity. And I believe that it's quite justified to call them that. The two challenges I'm referring to are climate protection and energy.

Particularly the last few weeks have again demonstrated that energy is, of course, largely a matter of energy supply security and thus also the right political conditions. I spoke about this from a European point of view with the Russian President last Sunday. We agreed – and this also applies to many other spheres – that communication when difficulties arise has to be improved. I want to add that it can indeed be improved. The European Union will therefore endeavour to incorporate market-economy regulations into the agreements between the European Union and Russia.

But it is also a fact that if Europe wants to reduce its dependency in order to guarantee its energy supplies in the long term, then we have to step up energy research. We want to create a functioning single market for gas and electricity in Europe. Every citizen should have free choice of supplier. Our goal is to adopt an Action Plan on an "Energy Policy for Europe". This will include the aims with which we as the European Union want to go into the negotiations on the climate convention beyond 2012, i.e. once the Kyoto Protocol has expired. I believe this is more important than ever.

Ladies and gentlemen, I would like to remind you of the fuss which the Club of Rome report caused more than thirty years ago in 1972. The report was entitled "Limits to Growth" and

warned against treating nature irresponsibly. We are now all too aware of the dramatic consequences of climate change. Anyone who needs a practical example in addition to the scientific surveys should be persuaded by the Stern Report on the economic impact.

We only have to look around Europe, starting in Germany. Our children born today won't see any ice on the Zugspitze in 2020. In my part of Germany, we worry whether there will be any trees, such as oak trees, in future. In Spain and Portugal, droughts and desertification are on the increase. If we look at Africa, then we know that some of the migratory flows are due to damage to the environment.

But in contrast to the 1972 Club of Rome report, we've drawn a different conclusion today: zero growth can and will not be the answer. Rather, the answer is greater innovation, particularly in environmental technologies. Zero growth would ultimately result in the preservation of the status quo, an absolutely unacceptable idea for emerging economies and developing countries. We know today – this has been our experience since the early seventies on both sides, i.e. that of the economy as well as of ecology – that those who saw an irreconcilable conflict between economy and ecology were wrong. No, the two must be combined intelligently. That would benefit humanity. Due to the oil crises we succeeded in decoupling economic growth, consumption of resources and CO₂ emissions from one another. This decoupling should also be possible in emerging economies and developing countries.

Europe attaches considerable importance to developing renewable energies and to climate protection. Since 1990, industry's energy productivity in the European Union has risen by 19%. That's not enough but I say this because it shows that we can make progress. I therefore welcome the proposal by the European Commission that we offer a reduction target of 30% by 2020 in the negotiations for the period after 2012. However, we also expect other major emitters to make a similar contribution. That would mean planning certainty, in particular for the emissions trade, for investments in low-emission technologies and for Europe's energy strategy. Everyone can and should see that we really want to change course because we have to.

Ladies and gentlemen, I've also noticed more encouraging signals from the United States than was the case in previous years. People there, too, are aware that energy efficiency and new technologies are absolutely necessary. The American President announced yesterday that the US wants to reduce petrol consumption by 20% in the next ten years. That is an ambitious target which will enable us to enter into a sensible competition. But it is also absolutely necessary.

Incidentally, we also know that politics alone cannot prevent climate change. We need a climate regime which includes all major greenhouse gas emittants. I just want to remind you that at present the European Union accounts for 15% of all CO₂ emissions. Some 85% is emitted elsewhere. And Europe's share will fall. We therefore need global responsibility. I'm delighted that impetus is also coming from industry, e.g. the so-called 3C Initiative on global climate protection put forward by Vattenfall's CEO, Professor Lars Josefsson, and I'm pleased that this initiative has received much support. The right message would be sent from here and elsewhere if many companies – if possible all companies – were to contribute.

Ladies and gentlemen, let's not kid ourselves: globalization frightens many people. However, I'm convinced that the essence of globalization today provides the world with many more opportunities than risks. It offers people the chance of more peace, more freedom and more prosperity. However, if these positive forces of globalization are to benefit everyone, we have to create a new balance of power: in world trade, in the consumption of resources, in education, in the fight against AIDS and in state finances. To put it in a nutshell, we need a global economy which complies with the rules of a fair regulatory framework.

It is therefore not right to say that the state has been rendered dispensable or impotent by globalization. The success which we for example in Germany had with the social market economy is, in my view, the best example of this. However, it is clearly right to say that with changed political conditions, with right and fair conditions, we can shape globalization. Germany will make its contribution towards this during its Presidencies of the European Union and the G8. I hope that we will find many allies.

Thank you very much for your attention!