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Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

Virginie ROBERT, Foreign desk editor, *Les Echos*

Mr Itoh, I would be curious to know if you share Mr SaKong's point of view on those new financial institutions led by the Chinese in Asia. Do you agree with him that it is mainly for infrastructure and can be used for global growth and the global economy?

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

Before responding to your question, let me just make a brief comment. The IMF, the World Bank, GATT and the WTO are still very important, but it has to be admitted that the world community has become much more sophisticated now than when it was established. For example, GATT is mostly about cutting tariffs on manufactured goods between industrialised nations, and when we restrict the discussion to that area it makes things much easier. When the IMF was established, it was supported by money from developed countries to ensure currency stability in these countries. Everything changed in 1973 when the developed countries changed to flexible exchange rates, and now we are using money from developed countries more for the stability of developing countries, so this role is changing.

Therefore, the role of these international institutions is very important, and we have to change them further in order to cope with immediate issues. For example, regional trade negotiations may be necessary, and as someone said, negotiation itself is very important for promoting movement in domestic politics. When the WTO negotiations are in stalemate, we have to find something else to create movement.

Virginie ROBERT, Foreign desk editor, *Les Echos*

That is what is happening.

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

Yes. Regarding the AIIB, I am not very sure, but we have to remember that there is a huge number of unilateral contributions on infrastructure by each country. China is very big, and you have to remember that quite a large proportion of the money is coming from China, so it is partially a reaction from China, but China is very skilful in inviting other countries to participate, so we have to watch it very carefully.

Virginie ROBERT, Foreign desk editor, *Les Echos*

Everybody wants to be there. A lot of occidental countries have decided to put money into the AIIB.

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

Yes, and if the AIIB is successful and has a good governance system to monitor the project and so on, then it will grow, and if it does not then it will not.

Virginie ROBERT, Foreign desk editor, *Les Echos*

It is supposed to be bad news for the Asian Development Bank, which is pretty much managed by the Japanese.



ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

It is not only Japan but also America and other Asian countries. The conditions are very important anyway, because you always have to keep changing in order to ensure stability, but the Asian Development Bank has a long tradition of doing business in a very sophisticated way. Therefore, the experience of the ADB can be useful with regard to the AIIB.

However, let me talk a little more about the economic aspects. We had a terrorist attack, and it reminded me of the terrorist attacks on 11 September 2001. You may remember that there was a lot of pessimism about the prospects of the world economy after 11 September. Then we had the concept of the BRICS, which I think was coined by Mr O'Neill of Goldman Sachs, and he once told me that the growth of the emerging countries was much greater than the pessimistic picture after the terrorist attacks of 2001, and that was correct, actually, so we had tremendous growth in 2000 to 2008.

Compared with that period, unfortunately, the BRICS have become more of a risk.

Virginie ROBERT, Foreign desk editor, *Les Echos*

Taking Brazil and Russia out does not leave much.

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

Yes, so we have to think very seriously about these conditions, not just about terrorism itself but more about the global economic environment, which is changing a lot. China will be a very important topic in this conference and is one of the most important players in the BRICS because of its size and its tremendous growth. However, at the same time, because of the change in policy after the Lehman crisis, when they spent a lot of money on infrastructure and heavy industry, that actually caused a much more complicated problem, such as huge amounts of overinvestment in infrastructure, bubbles in the real estate market, over-lending to state-owned companies or local governments, so China is rightly changing its direction to the so-called new normal, shifting from manufacturing to the service sector and from investment-led to consumption-led growth, and going for a more modest growth rate.

The problem is, it is unclear whether a soft landing can be achieved with that new normal, and in order to achieve a new normal in terms of growth, the Chinese have engaged in a very dramatic privatisation of the service sector.

Virginie ROBERT, Foreign desk editor, *Les Echos*

What is your bet? Will it be a soft landing, or will we all suffer from this?

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

The market is still watching. When everybody is talking about a crisis, it never happens, but when it happens it does so very quickly. It might be 90% or 5%, but it is just about keeping in good equilibrium. However, there can also be bad coincidences, so we have to watch very carefully, but not very pessimistically, at this time.

Virginie ROBERT, Foreign desk editor, *Les Echos*

Staying on the topic of economics, we noticed a Chinese slowdown, and you say that the jury is still out and we do not know whether it will be a soft or a hard landing. Looking at Japan, your country, it is three interesting years since Mr Abe has been elected. He really tried to impose a lot of new policies, and their success has not been great, with Japan being technically in recession again. Can you explain why it has not taken off?



ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

The Japanese experience is not just for Japan; it is a very good case study to consider so-called secular stagnation, which was originally discussed by Larry Summers. The European countries are facing a very similar problem, along with the US to some degree. It is very difficult to get out of ten years of deflation, and we needed some very dramatic measures. Mr Kuroda, the Governor of the Bank of Japan, as you might remember that after a very dramatic measure the stock price increased by 150%, profit increased by more than 30%, the exchange rate moved a lot and the unemployment rate fell to 3.1%.

However, the problem is that the main parts of the economy, whether consumption, investment or production, have been very slow to respond because this deflation is much more deep-rooted. What we are now seeing in Japan is a very important kind of transformation from the original first phase of expansion to its transmission to the real economy, and two things are very important. One is the labour market, where there is increasing demand, so if it triggers an increase in wages, that will be a very good trigger as it promotes consumption, and it is also very important for a continuing process of mild inflation. The other is investment. The corporate sector has accumulated huge amounts of cash, because they are now earning a lot, but they are probably not using it, so again inflation is important, because Japan may get into a negative interest range for the first time in the last 40 years, which may be very important for promoting that kind of action by the corporate sector.

Virginie ROBERT, Foreign desk editor, *Les Echos*

You say that raising wages is important, and of course getting women into the workforce is another thing that Mr Abe has been striving for, but there again it is very slow.

ITOH Motoshige, Professor, Graduate School of Economics, Faculty of Economics, University of Tokyo, Advisor to the Prime Minister

That is a very complex social problem. The important thing for us is very strong political commitment, but we also must be very patient in order to change the male mindset concerning participation in family businesses, and we also have to change the tax system and everything else. However, the important thing is that, hopefully, Japan has started moving in that direction.