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I want to turn now to Itoh. Itoh, for the last hour and a half or so, we have heard a whole series of problems that have arisen, whether in the WTO, global value chains, the international trading system and the international financial system. In many ways, Japan is caught in the middle in almost all of them: between the US and China; between the US and Korea; between Russia, China and the United States. I would be interested in knowing how it feels to be squeezed like this and what the Japanese are planning to do about it?

Itoh MOTOSHIGE

Let me just come back to the macroeconomy which may be a very important aspect of the issue we are discussing and the Japanese experience will probably provide some kind of implications for that. I am an economist teaching at the university, so I just want to mention supply and demand, which is very important. What came out at the beginning of this session, was mentioned in the previous session, was a very serious supply side problem, what Larry Summers called secular stagnation and what Robert Gordon just discussed, which is that the total factor productivity of the United States was very stagnant for the last 30 years. If you have a very stagnant supply, you cannot do anything. You may be able to stimulate the economy by stimulating the money for a while, but what happens now is that it is maybe stimulated too much, with too much debt and too high prices for stock and there may be more risk of just falling down.

However, the demand situation is very important when it is very stagnant and that is what we experienced after the crisis of 2008 and the Japanese experience was a typical case. As you probably know, we had a very bad situation, what we call a deflationary trap, it was a trap, and we had to get out of the trap. Abenomics is a very, very unorthodox expansionary policy, combined with an inflation target and we found that it was successful. To just get out of the very serious lack of demand, you may need some kind of very unorthodox method, similarly for the EU and the United States. The problem we have is we were successful in changing the trend, however the inflation rate is never going up to 2% and the potential growth rate is very low at 1%. That just implies the supply side is not catching up and then, that is just the next problem. What happens now is that we have abundant demand, so that was the contribution of the previous macroeconomic policies, but then what happens is whether we are prepared for a sudden drop in demand. Unfortunately, there are many issues that we can think of as a source of disturbances in the next couple of years.

We have already talked a lot about Trump's administration, so let me talk about the China-US situation, which is very serious for the two countries, but from a macroeconomic viewpoint it may be more serious, because it could be the cause that triggers the drop in demand. I have had a lot of opportunity now to talk to Japanese business people about what they are doing to respond to this kind of trade conflict and most of them mention shifting production location from China to other places, because most of the manufacturing companies, not only Japanese, American, European, are just spreading production locations in many countries in order to just prepare for the risk. When the risk is more visible, it is very natural for the companies to just shift production. I also asked them the question whether they were going to make an increase in investment in China and there, they are not very sure, because they have to wait and see whether there is going to be increased risk or not. If this kind of trade conflict is just a change of mindset of the industry, not only Japan, but also the United States and Europe, that can have a very important implication for the world economy.

Jeffry FRIEDEN

It seems paradoxical, if a little bit optimistic, that inasmuch as Japan seems to have addressed its demand insufficiency problem, it is now facing very serious supply side problems. This highlights the fact that in an interdependent international economy, no one country can hope to address all of its economic problems without taking into account what is happening in the rest of the world.