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Akinari Horii is well-known to many of us, he has been the Vice Governor of the Bank of Japan and is now the Special Advisor and member of the Board of Directors of the Canon Institute for Global Studies. You have the floor my dear friend.

Akinari Horii

In Marrakesh World Policy Conference three years ago I said a few things:

1) globalization of economy and finance was slowing down as wages were rapidly rising in China and US-China tension intensified, 2) if the US presidential election 2020 brought about a liberal president – actually it did –, he would formulate socialistic policies, which would make American psyche more inflation prone, 3) negative interest rates in longer-term bond markets were a bubble and when it burst, it would entail financial disruptions.

I hope I have reminded you of my prescience three years ago. Today I would like to make a few points to follow these up.

First, globalization, which has slowed down, but it has not reversed the course. China's exports to the US stopped growing, but at the same time exports of Korea, India, and ASEAN countries are increasing. In other words, globalization in the periphery of China appears to be expanding. At the same time, US exports to China have continued to increase, and so has US direct investment in China. As long as it is in the interests of American companies to do business in Chinese markets, globalization seems unlikely to become deglobalization soon, although I would like to hear opinions of experts in geopolitics with respect to the prospect of US policy vis-à-vis China.

Between 2020 and 2022 there were several sources of supply chain disruptions, e.g., pandemic-related lockdowns, Ukraine war-related energy and food crisis. These disruptions are still with us and far from behind us, but the degree of disruptions is easing in my view. Unless globalization is reversed, inflation pressures from the supply side of the world economy will recede as supply chains are restored and alternative sources are developed.

Second, US fiscal policy. Now that the US has a split Congress, no big fiscal spending program or tax reform is likely to materialize within the next two years. US monetary policy is aimed at containing inflation and no big fiscal surprise is good news for it. Monetary policy tightening has begun to have effects on US housing investment, which will dampen rent and other shelter costs in a year. Personal consumption and business investment seem solid so far, but they will slow down, going forward. Whether all this ends with a soft-landing or not, I am perhaps more optimistic than most of you around the table. Why? Perhaps because I live in Japan, away from Ukraine, first of all. Europeans are much more concerned about their own economies with reasons. Also, I see no large build-up of financial dislocations, particularly in the US, like the ones which led up to the GFCs.

This discussion leads us to the third point: the global financial system. Three years ago, I discussed a possible financial problem arising from the asset management industry. A near-crisis actually broke out in the UK when long-term interest rates shot up a few months ago. We may witness a similar episode if my optimistic scenario of US economic soft-landing fails to materialize. Otherwise, I hope that the central banks and other supervisory authorities will be able to manage the situation by addressing problem-causing institutions case by case. It is comforting to know that most of the banks in major countries are so well capitalized that they are unlikely to feed into a systemic crisis of the financial system.

Jean-Claude Trichet

Thank you very much indeed. I understand that you told us very lucidly three years ago what would happen and obviously you were quite pessimistic, and now you are reasonably optimistic and confident. We take note of that, and we will judge in three years' time whether you are right. Thank you very much indeed for this exposition.