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Special Advisor and member of the Board of Directors of the Canon Institute for Global Studies

Jean-Claude Trichet, President of the Académie des sciences morales et politiques, former President of the European Central Bank, Honorary Governor of the Banque de France

Anyway, Akinari, it is your turn.

Akinari Horii, Special Advisor and member of the Board of Directors of the Canon Institute for Global Studies

Thank you. Two previous speakers discussed development finance but I think I am going to speak about world economy, or the main thrust of your paper. Let me begin with the US economy, I hope you remember that I was optimistic about the prospect for US economic slowdown a year ago. I continue to be optimistic and the US economy is now at full employment, on top of this the fiscal policy stimulus that has been incorporated in the Inflation Reduction Act, strange name, and CHIPS Act is materializing in terms of expansion in business investment in the US. The stimulative tax effect will continue in 2024 and beyond.

2024 is of course a presidential election year under the split Congress, so there will be no new fiscal initiatives, but there continues to be stimulative effects of the past legislation. In light of both the full employment at present and fiscal stimulus in the pipeline, I think the Federal Reserve will be cautious about monetary easing. They may begin to lower the federal fund rate target in 2024, of course, but perhaps only to the extent consistent with increases in the unemployment rate. In other words, no pre-emptive easing but cautious easing or measured pace easing is likely.

As long as fiscal policy is expansionary and monetary policy cautious that means a high IS curve, the investment-savings curve and a high liquidity curve, or LM curve, in terms of Mundell-Fleming's framework, i.e., economic growth will continue with relatively high real interest rates and a strong US dollar on exchange markets. Therefore, equity prices will fluctuate perhaps within a range where monetary tightness, or relative tightness, puts a lid on price earnings ratio and economic growth supports return on equity.

Let me segue to the Chinese economy. We all know that the Chinese economy is under a few structural adjustment pressures, for example a burst of property bubbles and debt overhang, Communist policy of tightening grips with business, actually more widely over civil society in general, which is stifling entrepreneurship in China, and lastly an unfavorable demography. At the same time China's economic slowdown has been accentuated by the so-called silicon cycle which goes up with IT-related production in the global market for two years and goes down for two years on average. 2023 was a declining period and now the cycle seems to be hitting the bottom, as we heard the same story in previous sessions by semi-conductor experts. Just like Japan experienced cyclical ups and downs during the first decade after the burst of property and stock bubbles, the Chinese economy will also show cyclical ups and downs even when structural adjustment pressures put a damper on its trend growth.

In 2024 the silicon cycle will turn favorable for China's economic growth from a cyclical viewpoint. It is also the case for Korea and other Asian economies as well as Germany, in all of which manufacturing is a key industry therefore sensitive to the silicon cycle.

With respect to finance I have lots of say but perhaps I would come back if you are interested in this for the following session. In addition many people are interested in the similarity and differences between Chinese burst of the bubble now and the burst of the bubble in Japan in the 1990s, but I defer that discussion also at a later stage.

Jean-Claude Trichet

Open up for a lot of questions, if I understand.

Akinari Horii

If you are interested, yes.

Jean-Claude Trichet

Thank you very much, can I add to what you say, which is absolutely true, that the US apparent prosperity is really based also on a big curve account deficit and the difference between Europe and the US is based partially, it seems to me, on the overall policy mix, which is much more expansive in the US than in Europe, also including the fact that the depressive effect of the war in Ukraine is hitting Europe significantly, but the open under the circumstances are more or less, I am speaking under the control of the IMF persons, but more or less balanced with a slight suppress when the US is still permanently in deficit.

However there are also four questions, possible questions, the demographic issue in the long run of China which looks a little bit like the Japanese but much worse. When I look at the figures I think it is absolutely terrifying because you did not have a period where there was a one child per household in Japan, but the price we paid for this policy in China looks very big.

Thank you very much for your concise speech, if I may, and for reserving the case for responding to questions.