



CIGS Paul Goldstein Seminar

**“Arrival of new era in geopolitics &
geoeconomics represented by the recent
development in East Asia, and its future”**

(Summary of speech)

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Paul Goldstein, President and Chief Executive Officer, Pacific Tech Bridge (PTB):

With Trump we have a complete break from how American policy has been conducted, and we are no longer operating on the foundation of previous administrations. The biggest problem now is China, which has embarked on a strategic plan to bypass and dominate the world in the next 30 years. Everything in its economy and military intelligence arsenal is being deployed to create a new digital dynasty, which poses a challenge to the United States.

China went through a 300-year decline, not only the 120 years from when the Japanese Empire defeated the Qing dynasty until the Communist Revolution in 1949, or the last 70 years since then. China should be seen in this 300-year framework, which is a very different approach to try and understand its rise, decline, and its rise again.

You have to look at the huge cultural difference between western and eastern culture and institutions. Although Japan is part of the east, the difference is that it is a liberal democracy and has a security alliance with the United States. Historically, the United States tried to build a democratic world order, based on the United Nations, on treaties, on war that enables the world to become to a better place, rather than wars to resolve major international issues. The institutions of the Bretton Woods system, security alliances, the IMF, the World Bank, and every nation, need to adapt to this new geopolitical and geo-economic growth, or they will not survive. And the digital side is the most important, because it is changing how economies work and how societies function.

The difference between China and the United States on the issue of the digital economy, is that in the United States it is held by private enterprise, who didn't want to cooperate with the government. The US government, and its agencies, cannot use data generated by the private companies, which is protected by our constitution and the law. China however runs its digital economy through the state. That's the context of what I wrote on geo-economics and geopolitics.

The Bush administration prioritized the deployment of American military power in an attempt to bring about democratic change in the Middle East. American military might was used to overthrow governments, like we did in Iraq, but it did not work. However, after years of unending strife, a new order is emerging in Iraq. The recent election in Iraq represents the beginning of real democratic change in the Middle East. The election

there shows that Iraqi nationalism transcends sectarian, religious, and tribal differences. The threat to Iraqi democracy is Iran, and when the United States breaks the JCPOA agreement, everyone panics.

Many Japanese are very worried that United States is not behaving properly, that we are impolite and are aggressive. That's what Trump is. Trump was shaped by negotiating in the New York State real estate business, and that's a rough business. The traditional forms of nice people, the liberal establishment, the media, say that Trump is out of control.

But China gamed the United States. We gave China a free pass for 30 years in the belief that a wealthier China would open up its markets and political system and become a liberal democracy. China is going to need to learn not to underestimate the United States.

Lifting 400 million people out of poverty, is a historic achievement for a country, and Deng Xiaoping should be praised for that. But it was modern Japan that became the key to catalyzing a global shift that eventually led to what became modern China, and Deng Xiaoping at times recognized this. But now Japan and United States are faced with a different China. Is China grateful to anybody for the assistance that the west and Japan provided in building a modern economy? Did they show anybody else respect and acknowledge other people's contribution? This is the challenge, and we need to trust each other more and work even more closely together, to deal with and address the Chinese challenge.

We need to change the way we do things, and that's where the geo-economic and geopolitical interaction functions. Geo-economic is a subset of modern geopolitical theory, practiced and shaped by the British Empire, which in the late 19th century and early 20th century was confronted with the rise of Germany on the continent. The first ally the British built a relationship with was Japan, through the Anglo-Japanese treaties of 1902, 1909, and 1911, and this was the Maritime Alliance. The British understood that the Eurasian landmass was the world island, and if you can control that geographical boundary you control the world system.

More recently, in 1990, strategist and geopolitical thinker Edward Luttwak, wrote a book called "The Endangered American Dream," about how to win the geo-economic struggle for industrial supremacy. He argued that Japan's model of the original Ministry of International Trade and Industry should be adopted by the United States, and that

supporting companies and industries is power. Luttwak's ideas were criticized by some economists as outdated, but the principle of geo-economics emerges out of this debate about geopolitics, as a strategy based on national economic power, and not military power or territorial acquisition.

Former ambassador to India, Robert Blackwill, coauthored another book in 2016 called 'War by Other Means: Geoeconomics and Statecraft.' Blackwill defined geo-economics as the use of economic tools for geopolitical rather than purely economic objectives. Blackwill cited trade and investment policies, such as sanctions, energy prices and policies, and cyber warfare as new and powerful means for advancing national interests.

The issue of geo-economics came to the attention of policymakers during the collapse of the Soviet Union and unraveling of military alliances in the late 1990s. Then in 1992, with the election of Bill Clinton, the American establishment recognized a strategic opportunity to incorporate geo-economics into policy making, as integral to the broader strategic interests of the United States. During his campaign, Clinton emphasized that the importance of American economic power is the key to foreign influence. Following his election, he established the National Economic Council, the geo-economic institution of the United States, and the geo-economic coordinator of all of the national assets of United States. The NSC had four areas of responsibility: coordinate economic policy making with respect to domestic and international issues; coordinate economic policy to advise the president; ensure that economic policy decisions and programs are consistent with the president's stated goals, and to ensure that those goals are being effectively pursued; four, monitor implementation of the president's economic policy and take such actions including drafting a charter as maybe necessary or appropriate to implement such functions.

So where are we heading? Where is the United States going? Is there a direction to US policy? Or are we just cracking the old system and hoping a new system emerges out of it? What is the purpose of our Korean policy?

We wanted to set an example for what the new emerging international order would be. Kim Jong-un is known to love basketball. So during the Obama administration, the Americans sent Dennis Rodman, the professional basketball player, to meet Kim Jong-un. How many people know that that was a CIA operation? That is the truth. He went twice, not once. Messages were delivered, and that began a secret back channel dialogue, because we didn't want China to know what we were up to. The CIA built a

team of Korean-American CIA officers. The head of the unit, Andrew Kim, ran the Korean mission program for the CIA, and accompanied a man named Pompeo. This upset many of my Japanese friends, but we haven't forgotten Japan. We will never abandon Japan. There is paranoia in Japan that the Americans will always have a secret agenda that will hurt Japan. Not true.

The new US ambassador to Korea is Harry Harris, former head of the Pacific Command, and a Japanese-American. What signal are we sending Korea by having a Japanese ambassador from the United States? This is the new era that we're in. Xi Jinping got very upset. Why was he not consulted? We're in trade negotiations with China, and struggling to figure out a new arrangement. Japan is now adjusting to those changes, because it is a great power, and will emerge as an equal partner to the United States. Japanese think this is impossible because we sat on Japan for 70 years. That's no longer the game. The Americans have finally pulled out and said it's yours to handle.

When Pompeo was in Pyongyang, Kim Jong-un made a request. Can the United States guarantee that the regime be left in place? Pompeo said yes, and we will move some American troops to the northern side of the DMZ (DeMilitarized Zone) to be the guarantor of the future of North Korea. So the negotiations got disrupted by Xi Jinping, who tried to insert China into the US-DPRK negotiations. Trump said no, and everyone thinks Trump is freaking out. No, he is totally calculated. This is how he negotiates. He's not a nice man. Then North Korea sends back messages that they want to negotiate, and Trump agrees. And who have we sent to Pyongyang to negotiate? Another Korean-American ambassador, Sung Kim who was the political officer here in Japan, and knows Japan very well. So we are having special channels of communication to coordinate on orthodox, nontraditional approach to diplomacy, and we're going to move this process forward.

The great challenge is, can the Japanese business community, especially the business community, see this big picture? And the second biggest problem is the cyber penetration that China has conducted. China runs a vacuum of intelligence, collecting everything, steals intellectual property rights, conducts unfair trade negotiations, and tries to dominate weaker countries, in the era we're in we really want China to cooperate with this emerging world order. China has a different vision, and 300 years of resentment. It's a great civilization, and very different culturally, and Japan understands this better than the United States.

So, now we need a strategically coordinated approach to China and Russia, because even though there are deep suspicions between them there is a Sino-Russian partnership. When Abe was negotiating with Putin he was very mindful of that, and moved the agenda forward with Russia on geo-economic grounds. Abe understands the new era we're in.

We have to figure out how to navigate the new politics that is emerging. Some aspects of the old system need to be preserved, such as the IMF and World Bank. China in the meantime has built the Asian Investment Bank, AIIB, and then the New Development Bank. So, we're in a very peculiar period in which are figuring out how we are going to come to an equitable fair trading system. And we hope that Japan has enough patience and understanding to help rebuild the new trading system.

Trump's nontraditional approach revived geo-economic as an important feature of American global strategy. He spelled this out as America First. It's an aggressive approach to the Chinese challenge. Trump withdrew from the TPP, initiated new negotiations for bilateral free-trade agreements, withdrew from the Paris Climate accords, initiated tariffs against unfair trade practices and intellectual property theft. He pressed for new trade policies that reduced trade deficits based on free trade and equanimity, and he withdrew from the JCPOA in order to force Iran back to the negotiation table.

So, what are the instruments of geo-economic policy? Trade, investments, economic-financial sanctions, financial and monetary policies, energy and commodities, foreign aid, cyber and digital. This is the challenge for Japan, the United States, the liberal democracies of the world to meet what China is trying to do, that is redefine the international order.