

CIGS Paul Goldstein Seminar

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

(Summary of Q&A)

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Venue: CIGS Meeting Room3

Daisuke Kotegawa, Research Director, CIGS: What is the major objective of advanced pressure on Iran? I would like to ask you to explain especially the situation in Israel now, and how this situation might have some relevance to this issue of Iran?

Paul Goldstein, President and Chief Executive Officer, Pacific Tech Bridge (PTB): Israel under Netanyahu is seeking to transcend past policies and become the dominant power in the Middle East. Now, the United States is always trying to get Israel to recognize the two-state solution. Every Israeli prime minister before Netanyahu tried to accommodate that issue, and Ariel Sharon actually came up with a solution that was rejected by the Palestinians.

Netanyahu has broken with this tradition of trying to find the Palestinians solution. His number one issue is Iran, and he sees Iran as an existential threat to Israeli national security.

The JCPOA was Obama administration policy. Now, Trump is throwing that out. Israel, recognizing that they have a real friend in the White House, is now trying to weaken Iranian infrastructure, militarily, financially, politically, and their intelligence in Syria. If it becomes too dangerous to the future of Syria, Russia pushes back on the Israelis. The Americans in the meantime are backing Jerusalem as the capital of Israel. Does that mean East Jerusalem would not become a Palestinian state, the capital of Palestine? No, it doesn't. Trump has a plan, and we're now renegotiating the JCPOA with Iran.

Every time we box Israel in on the Palestinian issue, they always find a way of slipping out of it. We got tired of that and now we're giving them the opportunity to work with the Sunni Arabs that contain and push back on Iranian desires to be the dominant Middle East power.

Questioner 1: My first question is how to meet with China's challenge to the existent global order, particularly in the area of cybersecurity?

Second, under President Clinton the main strategy with respect to China was engagement. You said that a seismic shift happened in US policy. If and when Mr. Trump and his team leave the White House, will there be another seismic shift back to that engagement policy?

Goldstein: China has 305,000 cyber warriors. Japan has several hundred, and the United States several thousand. We need to restructure our cyber capabilities, because China has already started the cyber war. They are already conducting like what the Russians did very differently but more sophisticated. They are committed to becoming the dominant artificial intelligence cyber country, 5G and quantum computing. We're in a race, and we have special collaboration between Japan and the United States, but it's quantum computing that's going to be the real challenge.

Secondly, China has made a commitment that they are not part of the international liberal system. Their challenging of Japan in the Senkaku, the building of the islands, militarize the islands, claiming that this is Chinese sovereign territory, and then moving and continue to aggressively pursue Africa, Asia economically through their debt strategy, through economic inducements, the bribery. They have different objectives. China doesn't want to play by western rules. China is China. Since when is the South China Sea sovereign territory? This is called the core interest of China. We shouldn't violate it. We are violating it. We are pushing freedom of navigation and challenging the Chinese in the South China Sea.

Can we build areas of cooperation with China and at the same time build a fence around those areas that we disagree? Can we build a crisis management system between us and China? We had the most incredible crisis management structure on nuclear weapons between United States and the Soviet Union. The Chinese are on a massive nuclear weapons modernization program, and this is the new challenge that we're faced with.

There is no way of forecasting this outcome in this new non-linear world. It's not a binary good guy versus bad guy. You need algorithms and artificial intelligence to figure out where this is going on, but you don't run your policy. Algorithms and the artificial intelligence are not the same thing as human thinking, which we need in managing artificial intelligence. We're in a different world, but it's the human being that's the most important, and this is hopefully we can have this kind of conversation with the Chinese.

We might have to launch certain cyber operations that undercut the Chinese operations, and they get the message. We need the tools and the capabilities together to manage the Chinese game, and the importance of the US-Japanese alliance is more important than any other time in history.

Questioner2: I am really interested in your explanation that the US and their influential companies are not willing to cooperate with the government. The main characteristics of the American mainstream discourse is lack of respect for government. My question is, some people are finding the need for cooperation between public sector and private companies. Do you think that the view on the government will become more pro-government in the United States?

Goldstein: Alexis de Tocqueville wrote a book called “Democracy in America,” about the idea that Americans were organically civic-minded and initiatives are taken by the citizen and that government has a limited role to play. The tendency you’re describing most American conservatives believe in is limited government. We have this other tradition in which the role of the federal government was to pull the United States out of debt from the American Revolution, and a strong central government was needed to stabilize the American experiment.

We’ve had the tension of an American political system between strong central government, state rights or local government, or more civic-minded things. The depression changed all of that. The government had to play a much bigger role to save American capitalism. Many conservatives of the Friedman types said this was a disaster, and that the government was interfering with financial institutions in their right to pursue profit.

The United States is going through an innovative period because of the digital sphere, in which entrepreneurial activity is slowing, and so the Friedman argument is a dated argument. It’s old fashioned. The University of Chicago Business School was discredited with the collapse in 2008-2009, after we eliminated Glass–Steagall in 1999. Now Trump, during the presidential campaign, called for a 21st century Glass–Steagall. We just eliminated Dodd-Frank, and we’re empowering small and medium-size banks, while the big banks still carry the bad toxic debts from the 2008-2009 crisis. We are now breaking with all the things that stabilized the banking system, and going with a different approach of higher interest rates.

Companies like Facebook and Google are going to be regulated. But what kind of regulation? Some people want to regulate it like utilities, others as a publishing house, that it’s not just a neutral platform. So the Friedman idea that took place during the Reagan revolution played itself out to the 2008-2009 crash, and now we’re in a different phase of figuring out what kind of regulations work and what doesn’t.

Questioner3: It seems to me that this is the beginning of a US hegemonic war against China. Does President Trump have some broader long-term and strategic idea on his China-US trade deficit, or is he short-sighted and simply just the idea of coming across an economic way of thinking?

Goldstein: We have a long-term strategy with China. The global economy is tied to the US-China relationship, China is trying to have a China wins approach. We have to use whatever instruments of state power change the way China is behaving on the trade issue. Now, Trump became very disturbed about Chinese trade negotiations when he discovered that the Chinese stop importing soybeans. And not only did they stop taking American imports, they were investing in Eastern Russia for soybean production, and reorganizing their entire agricultural sector to produce self-sufficiency in soybeans. Trump has become increasingly suspicious that China does not want to keep the imbalances because it gives them leverage over the United States. So, how do we react to that? We hit them where they least expect it.

Questioner4: What is President Trump's strategy for Europe?

Goldstein: The European political class wanted to build a super state, monetary system, and single currency and that to eventually replace the dollar. The European leaders believed the nation state was passé, and deluded themselves into believing you could build this global system of governance, where the nation state is subordinate to international institutions. Now, we see a shift and that shift is profound in Europe and Europeans are changing. Macron recognized that he better make a deal with Trump. The Europeans now have to figure out that it's still America, that we haven't gone off the rails, and that we're not isolationists. We withdrew from these global treaties, and Davos became Xi Jinping's platform. I think the Europeans are smelling the salt and waking up that it's the nation state, not the EU, that's the most important entity. Now, how the nation states collaborate and not descend into getting into a war like in the past, that's the challenge.