

Interview with Matthew P. Goodman, Senior Advisor for Asian Economics at CSIS

US Foreign Policy in a New Paradigm — What Does It Mean for Global Geopolitics?

By Japan SPOTLIGHT

The new US administration's foreign policy stance looks set to change global geopolitics, though we will need more time to understand its full implications for a globalized world. With globalization proceeding unstopably, what uncertainties could occur due to this shift in US foreign policy philosophy that places US national interests as a priority?

Japan SPOTLIGHT had an interview on Jan. 13, 2017 with Matthew Goodman, senior advisor for Asian economics and holder of the William E. Simon Chair in Political Economy at the Center for Strategic and International Studies (CSIS), a prominent US think tank that focuses on international political economic analysis, to hear his views on what the new US foreign policy will look like and its possible consequences, in particular for Asia.

Introduction

JS: Could you please tell us about your background and your relations with Asia?

Goodman: On behalf of the Simon Chair, I explore current issues in international economic policy, with a focus on the Asia-Pacific region. Before joining CSIS in early 2012, I was White House coordinator for Asia-Pacific Economic Cooperation (APEC) and the East Asia Summit. I also served as director for international economics on the National Security Council Staff, helping the president prepare for G-20 and G-8 summits. Prior to the White House, I was senior adviser to the undersecretary for economic, energy, and agricultural affairs at the US Department of State. I have broad experience in both the public and private sectors. Before joining the administration of President Barack Obama in 2009, I worked for five years at Albright Stonebridge Group, a global business advisory firm based in Washington, DC, where I was managing director for Asia. From 2002 to 2004, I served at the White House as director for Asian economic affairs on the National Security Council staff. Prior to that, I spent five years at Goldman, Sachs & Co., heading the investment bank's government affairs operations in Tokyo and London. From 1988 to 1997, I worked as an international economist at the US Treasury Department, including five years as financial attaché at the US Embassy in Tokyo.



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Short-Term Risks of US Foreign Policy

JS: What do you think are the short-term risks right now?

Goodman: I think the (US) election has created some significant additional risks. The United States is going to be less interested in multilateral arrangements and institutions that try to promote common solutions to big global problems or global cooperation to seize opportunities, for example in expanded trade and investment and so forth. So I think the US for a period is going to pull back from that traditional commitment to leadership. Plus there are some other specific risks, like the fact that the new administration, President Donald Trump himself and many of his appointees have very little experience in governance or working on these policy issues. There's a big risk of execution error and that is creating uncertainty, and uncertainty is also a risk. It makes it more difficult for businesses to decide whether they should invest and where they should invest. So that creates risk to the global economy. This has created a much riskier environment for the US and for the world. I am quite worried in the short term, even though I think in the long term the trends are still towards greater globalization, greater prosperity and continued US involvement in global affairs.

US-China Relationship

JS: How do you think the US-China relationship will develop?

Goodman: Trump doesn't have a lot of well-developed policy views or interests but one of his long-standing areas of focus has been China. So I think this is one area in which I'm more confident he will be engaged in doing some of the things that he talked about during the campaign. And he talked in tough terms about China, particularly on economic issues. I'm not sure about other policy areas but on China I do believe he intends to be much more transactional, demanding things in exchange possibly for some concessions but wanting some improvements in results. That means lowering of trade deficits and improvements as he sees it in Chinese trade policies. I think we are headed for a very rocky period in US-China relations, especially economic, but I think it will spill over into other aspects of our relationship.

To be fair, I think US-China relations would have been more difficult even if Hillary Clinton had been elected because she's also pretty tough on China, and China has been doing things which are pretty problematic from a US perspective. For example, they've been making the investment climate very difficult for foreign firms. US, Japanese and European firms have all felt the environment in China has become much more hostile to their investment. That's one problem. They've been continuing to enable the theft of intellectual property and have tried to promote policies to promote Chinese technology and innovation at the expense of foreign companies. So in the economic space there have been some legitimate concerns. And in the security area China's assertiveness in the maritime spaces around China, the East China and South China seas, has been very troubling and problematic for the US and of course for Japan.

So I think the relationship was going to be more difficult anyway, but I think Trump has taken it to a new level and I expect him to follow through on some of the specific things he talked about during the campaign. For example, I think he will probably call China a currency manipulator, even though the evidence does not support that right now. I think he will launch a number of trade enforcement actions, whether anti-dumping or counterfeiting duty cases or WTO cases or using other trade tools in the US. I think there's a possibility he will impose unilateral tariffs on Chinese imports into the US. That's a possibility rather than a probability. So I think he's going to be much tougher on China. That's one area where I think you're more likely to see some follow through on some of his campaign rhetoric.

JS: Do you think President Trump is also going to be tough on Chinese leadership in Asia?

Goodman: I don't believe he will be particularly active in that area. He's indicated he's not interested in pursuing multilateral initiatives

anywhere. Specifically he has said he is going to walk away from the TPP, which has been the main focus of US economic strategy in Asia for the last almost 10 years. That will give an opportunity for China to step forward and pursue its own initiative in the region and to try to get other Asian countries to follow. I'm not sure how successful China will be in that but I think that the US under Trump is not going to be so active in trying to lead regional initiatives in Asia. That will give China an opportunity to demonstrate its own leadership through things like the AIIB, the RCEP and so forth.

JS: So China could be a global leader, replacing the US?

Goodman: Maybe China wants to do that, although to be fair China has been reluctant to step into that global leadership role. They've been more interested in regional Asian leadership. But I think with the US pulling back in the short term China may decide to step forward and assert its leadership more globally. Internally China is dealing with quite a challenging political-economic situation of its own. It's a transition year in China where they face the 19th Party Congress and there will be new leaders joining the top leadership of the Chinese Communist Party. So from a political point of view the government is going to be very focused on making sure that the domestic political situation is stable.

Economically, also, China faces many challenges. It has had a miraculous growth experience for 35 years but now it's entered a much more difficult phase of its development where, although 600 million or 700 million Chinese have joined the middle class, that leaves 600 million or 700 million Chinese who are still in poverty. So they've not fully developed but they've reached a level of development where they can no longer rely on the old tools of heavy investment and exports to drive their growth. They need to find a new model of growth based on consumption and services and the transition to that model is already proving very difficult. It requires reforms to the structure of their economy. Although the Chinese government has announced some ambitious reforms, the follow through has not been very good. Because of the political problems that reform can create, like upsetting traditional vested interests, the reform process has slowed down and that makes it more difficult to make the big economic transition they need to make. And I didn't even mention other challenges, like environmental problems.

Right now, as we speak, the air in Beijing has been unbreathable. This is creating a real political problem for China, and frankly an economic problem because in order to solve the air pollution problem China may have to cut back on its economic actions. So China has many challenges at home which I think will constrain its ability to lead. The other problem for China in global leadership is that its model of international rules is not necessarily one that other countries want to follow. China has generally accepted the rules, for example of the IMF and even the WTO and the AIIB — although it's

an alternative institution to the World Bank or the Asian Development Bank. China has insisted it's going to pursue transparent and best practices. It's too simple to say that China is a rule breaker or has a completely different model, but it's also true that China's combination of state-driven economic development and some of the specific practices China has taken have been problematic for other countries and I think a lot of those countries don't want to follow that model.

So it's going to be quite challenging for China to assert its leadership. China has also been rather assertive in the political and security area and made Asian countries very uncomfortable in the region and that's obviously true for Japan.

JS: ASEAN countries are very keen to pursue the RCEP, assuming the TPP is almost dead. So at least in the trade policy area China can be a leader of an Asian free trade area.

Goodman: I think it's a little more complicated than that. It seems Asian countries are discouraged by the US position on the TPP and worried that it's going to die. I personally think it still has a chance to be revived but right now it's not moving forward so it's natural for countries to be looking at other arrangements. On the other hand, I think countries in the region recognize that the RCEP is a low-standard agreement. It doesn't liberalize trade very broadly or very deeply and it doesn't set the kind of high standards that the TPP was aiming to set, and did set. So I'm not sure how far the RCEP is going to go.

And there's another problem, which is that India is a member of the RCEP and frankly India has not demonstrated much interest in regional trade and investment liberalization. India has been focused on domestic economic reform but they're not really interested in opening up their market or participating in regional economic integration. So that's going to be a very big challenge to even completing the RCEP.

A final point: some people have the belief that the RCEP was a Chinese initiative. In fact it was a Japanese initiative. It was really an attempt to take the ASEAN-Plus trade agreement and integrate them into one big agreement, and Japan was the one that wanted the Plus-6 structure. China was quite reluctant to have that. China's preference was ASEAN+3 but even then they recognized that was not ideal because Japan and to some extent South Korea were not willing to yield. The bigger point is that the RCEP is not a very powerful agreement and it's going to be very difficult even to reach a low-ambition agreement because of the reluctance of several members, India especially, but also including Indonesia and others to reach an agreement. I am worried about the lack of US leadership on the TPP and other efforts, including for example on infrastructure investment in the region. Other things that are going on in the region, the US has pulled back from and that worries me.

Assessment on US Influence in Asia

JS: We think US influence in Asia is going to decline, given that the new administration is taking a foreign policy stance that is a bit isolationist.

Goodman: Yes, although Trump has indicated, and his Secretary of State designate Rex Tillerson in his Congressional testimony also indicated, that the US intends to be quite engaged militarily in the Asia-Pacific, to continue to support our military presence and even to strengthen it, including strengthening the navy, and Tillerson talked about being more engaged in trying to stop China building islands in the South China Sea, for example. So we won't be isolationist; we'll be very engaged.

On the economic side, Trump will be much more active in enforcement of better trade relations with China, some of which is not going to be very positive engagement but at least very active engagement. In addition to that, he's talked about doing bilateral deals. He hasn't personally mentioned a US-Japan free trade agreement; others have suggested that is something he will pursue. My point is, the type of engagement may change but I don't think the US is going to withdraw from the Asia-Pacific. We will still be involved but we will be doing things in a different way.

JS: Will this new engagement affect US relations with Japan, Korea and Taiwan?

Goodman: Trump has indicated he is concerned about North Korean nuclear developments and he's going to intervene to stop that. It isn't clear how he's going to do that. On the campaign trail Trump said some things that were quiet critical of South Korea and Japan. After his election, both in his telephone conversation with President Park Guen-hye and in his meeting with Prime Minister Shinzo Abe, he moderated his position and took a more constructive position toward the alliances. But he has continued to talk about allies bearing more of the burden of paying for alliance arrangements and so forth. There's also a worry that his transactional style of leadership is potentially going to create some serious problems for our allies if, for example, he does some kind of deal with China to reduce the trade balance significantly. He might offer some unilateral US concession, which could be harmful to Japan or South Korea or Taiwan potentially.

Certainly with Taiwan, as president-elect Trump called the new president, which was very unusual and very controversial here in Washington. Initially my understanding is that the government in Taiwan was quite excited and happy about this initiative by Trump but then within 24 hours they became worried about it because they were afraid that Taiwan was going to become a bargaining chip in US-China relations and somehow that we would give away Taiwan's interests in order to get some benefit from mainland China. Similarly,

I think there are worries in Japan about whether the US is going to support alliance interests with Japan if Trump wants to get something done with China. So this transactional approach is another reason for concern about US relations with our allies in Asia.

JS: This transactional approach is going to be applied to Japan as well and you said a US-Japan bilateral FTA could be possible. Perhaps the US government is going to ask Japan to boost its responsibility for security.

Goodman: It's early days. We don't really know how the Trump administration is going to behave. But based on the things he's been saying in the campaign and during the transition, it seems he is going to take a much more transactional approach. That could be beneficial for Japan or it could be problematic. It depends on which side of the transaction Japan is on. It's possible Trump will want to pursue a US-Japan bilateral FTA. Personally I don't think that's a very realistic way of moving forward. I'm not sure it's going to be their highest priority. I think they want to focus more on the trade imbalance with China and I think a US-Japan FTA would be more challenging to negotiate than people think. To take one specific example, in the TPP Japanese automakers got a pretty favorable result in terms of the rules of origin for production of automobiles in North America, which allowed companies to bring parts into North America from Thailand or other places outside the TPP and assemble them into full automobiles and the threshold was quite low for North American content. I think Trump is going to have a very different view about that. He's going to expect much more production in North America and specifically in the US by Japanese automakers and therefore it won't be so simple as to take the TPP results and put them in a bilateral deal. I think the US and Japan are going to have to renegotiate some of those things. Also from the US side I think our agricultural exporters, particularly in rice and dairy and other areas that are sensitive for Japan, are not going to be satisfied with the limited market access they have in Japan. I think they're going to demand much more access and that's going to be very politically difficult for Japan.

US Foreign Policy in Other Regions

JS: Turning to other regions, it's been said that Trump is going to be very tough on the Middle East and also pursue an alliance with Russia.

Goodman: It's true that the Trump team has been very focused on defeating ISIS. Trump has also made that a top priority. To some extent that will come at the expense of other regions, including Asia. But it's also true that Trump clearly has a different approach to Russia and he intends to do things differently. I think the notion of a

US-Russian alliance goes too far and I don't think that's what the Trump administration really wants. I think that when they settle into office and really look at what Russia is doing in many areas, the relationship is going to be much less friendly than people are expecting. Many people are trying to assign strategic thinking to Trump and his team. I don't think they've spent much time thinking or talking about these issues. I think much of his approach has been based on instincts and this transactional view of international relations.

JS: Turning to Latin America, there is a real concern over the relationship with Mexico in particular.

Goodman: He's said some tough things about Mexico, even going back to when he announced his intention to run for president. Then he talked about building a wall across the US-Mexico border and deporting 11 million undocumented aliens. Since he was elected he has pulled back somewhat from those more extreme statements. He's suggested we won't be building a wall all across the border; some of it might be a fence, some of it might not be built at all. He's suggested that if we build a wall, we will pay for it initially, but of course eventually Mexico will pay for it. And he's suggested that we're not necessarily going to deport all 11 million illegal aliens in the US, which frankly would be unrealistic and also in my personal view it would be inhumane because many of these people were brought here by their parents so you can't send all these people back or break up families, and I think he has come to understand that. He also talked about renegotiating NAFTA partly because he thinks Mexico has been getting a major benefit at the expense of the US. His position since he was elected has been a little less clear. So there are lots of uncertainties.

JS: What do you think about the role of the G-7 or G-20 in minimizing possible short-term risks?

Goodman: I think those bodies are still quite important to global economic governance. They don't seem to be the kind of organizations that Trump is going to be very enthusiastic about. He's demonstrated some skepticism about multilateral agreements or issues where countries sit around the table as equals to solve common problems. He's suggested that the US is the first among equals and that we should focus on American concerns first. There are even questions about whether he is going to go to the G-7 summit in Italy in May or the G-20 summit in Germany in June. **JS**

Written with the cooperation of Ian de Stains OBE who is a writer and consultant.