

Interview with Matthew P. Goodman, Senior Vice President, CSIS

Japan's Critical Role in Restoring Global Governance

By Japan SPOTLIGHT

As the US-China tech cold war continues, there is growing concern about rules-based governance fading away if the superpowers pursue unilateral or bilateral, or even arbitrary, approaches to trade, investment and security issues. Matthew Goodman, senior vice president of the Washington-based foreign and security policy think tank the Center for Strategy and International Studies (CSIS), is an expert on foreign economic policy and security, and gives his views on the current crisis in global governance and how it can be fixed in this interview.

(Interviewed on Nov. 26, 2019)

Self-Introduction

JS: First of all, could you provide a brief self-introduction, in particular with regard to APEC and US-Japan relations.

Goodman: I first went to Japan in 1983 to study Japanese and learn about Japan, and then I began working professionally on US-Japan relations in 1988 when I joined the US Treasury Department. Among other things, I was involved in the US-Japan Structural Impediments Initiative, which was a very intense experience during the administration of President H. W. George Bush. I learned a lot about Japanese economic policy during that period. Since then I have been in and out of government working on Japanese-related policy issues for 30 years.

With regard to APEC, I was at the White House in the first term of President George W. Bush for a couple of years, and was responsible for the APEC Summit, particularly the one in Bangkok in 2003 which was soon after 9/11 and so there was a security element that was added to the economic aspect. In addition, I worked on APEC in the administration of President Barack Obama when I was in the White House again, involved as a kind of sherpa for the United States in 2011 when we hosted the APEC Summit in Honolulu. That was quite an intense experience and I certainly learned a lot about APEC and its value as an organization for promoting Asian economic integration. Since then I have been at a think tank following US-Japan relations and APEC and broader regional economic affairs.



Matthew P. Goodman

Current Status of Globalization & Global Governance

JS: With such extensive experience as a foreign policy expert mainly in Asia, how do you assess the current status of globalization and global governance, particularly in the context of the US-China conflict?

Goodman: Both globalization and global governance are under strain for both internal and external reasons. Internally, in the US there are real questions among ordinary people about whether the benefits of globalization have been shared as evenly as

they used to be. There is questioning of the value of globalization across major economies. The new force that is straining globalization is the rise of new economies like China in particular, which is challenging both because of its size and growth. There are obstructions that China causes just by its economic growth and its exports into the US.

There was a very well-known study done a few years ago by some MIT and other professors – the “Autor Study” – which looked at the impact of Chinese manufactured imports into the US between 1990 and 2010, and found that it caused quite a lot of disruption to certain sectors and certain geographies in the US. This contributed to real impacts on people economically and led to people questioning the benefits of globalization. China is also a challenge because its record as a participant in global governance institutions has been mixed; arguably it is becoming more of a problem for the existing

institutions and rules. I think that China is becoming a challenger to the existing system of institutions and rules that the US and Japan and other countries have been supporting for many years.

Technology & Global Governance

JS: Technology seems to be an issue in this confrontation. Do you think that what we call the Fourth Industrial Revolution has brought about this situation whereby China is getting the benefits of this technology, which is in turn making its exports a threat to the rest of the world.

Goodman: Technology is a disruptive force – it has been a disruptive force since the first caveman picked up a rock and threw it at another caveman. That disruption can be good and is a net positive because it creates better efficiency in economics and production and contributes to economic growth. In the near term, it can be very disruptive to existing production and workers and systems of economic activity, and I think that is a contributing factor and a more important factor than trade. Trade often gets blamed for a lot of these problems but actually technological change combined with globalization and trade is the main source of the problem.

However, you can't stop technological change and you don't want to stop it because it does provide those broader benefits. As for China's role, I think that China has done something that is unprecedented in history in terms of its growth over the last 40 years from a position of poverty and economic backwardness to now being one of the most advanced countries in the world, and it did that through hard work and good policies including reform and opening of its economy, and taking advantage of technological advances.

China deserves a lot of credit and admiration for its success. And it is a natural for any country to want to move up the value chain, to innovate and to advance its economic system by taking advantage of technological gains. The problem is that China has had a tendency to take shortcuts to its technological development, including stealing intellectual property from advanced countries like the US and Japan and by forcing technology transfer from countries with advanced companies to China as a condition of entry to the Chinese market. That part of China's technological policy is problematic and troubling for countries like the US and Japan and that is why these issues have become such a focus of the US-China trade war.

JS: In terms of technological progress, its rapidity seems to pose some difficulty, particularly in the

context of international rule making. Such rapid progress in technology has made WTO rules obsolete. The “law of the jungle” could prove dominant now, and this is a concern for European and Asian countries. What do you think will be necessary to mitigate this concern?

Goodman: It is certainly true that institutions like the WTO and the rules and norms that they have promoted have been essential to the continued growth and success of many countries, including the US, Japan, and China but also many emerging and developing countries. Institutions and rules are very important, and these are under some strain. Part of that strain comes from very rapid technological change. There are also insufficient rules to govern those technological issues, particularly digital trade which really has relatively few rules that are commonly agreed. There is a negotiation in Geneva to try and create an e-commerce agreement that recovers some of those rules; you have plurilateral agreements like the CPTPP or the US-Mexico-Canada Agreement (USMCA) which has some new digital rules that are very important. Bilaterally, you have countries negotiating new rules, and most recently the US and Japan have negotiated a new digital trade agreement with rules about an open Internet and free data flows and no customs duties on cross-border electronic transmissions and so forth. These rules are quite important and there are various levels – global, regional, bilateral, unilateral.

Important parts of the global economy, and particularly the European Union, have developed their own rules. In the case of the EU, it has established a new set of privacy rules, so there are many efforts in these different forums to create rules, but there is not yet an agreed approach among the major economies of the world. Particularly critical are the four largest economies in the world – the US, EU, China and Japan. I think that in the end they will have to agree on a set of rules that are interoperable and can work together. Or we will end up dividing the world into two or three systems of rules. There could be a US-Japan bloc, an EU bloc and a China bloc, or maybe a sort of G7 bloc plus a simpler China bloc.

This outcome would be definitely sub-optimal in economic terms. Ideally you would get all the major countries together and of course others as well, and that conversation is going to be very difficult, but before it happens we have some things that have to develop. For example, the US is internally having a debate about data privacy, about data governance, about competition in the technology space, and we have not resolved these issues within the US. Then we have many differences between the US and the EU about these issues –

not so many with Japan, especially with the new digital trade agreement – but I think those three blocs have to get together first and resolve their differences and then try and have a conversation with China. I think this is the most challenging issue for the global economic order and for global economic governance and certainly for the system of trade rules.

Venues for Rules-Based Global Governance

JS: Many Japanese and Europeans seem to support the WTO. They say the WTO is the most important venue to achieve rules-based economies in a world that is facing a kind of crisis of the decoupling of economies. It does seem to be very difficult to achieve WTO reform. Is there any role for APEC or any means for mitigating these concerns?

Goodman: First of all, I agree that the WTO remains important as a kind of floor under the global governance system and it is important to have a functioning WTO on some level. Most analysts including me think that there are also major problems with the WTO; for one thing, it has proven impossible to negotiate comprehensive agreements involving all WTO members. Also, the dispute settlement mechanism is equally flawed and needs reform. However, in general I think that most analysts – although not everyone in the administration of President Donald Trump agrees with this – believe that the WTO is essential and that reform is very important.

In terms of your question about APEC, it may be that it is too difficult for one organization to manage the overall system of rules on trade and I think that may be too difficult in the 21st century. We may be heading into a period where you will see far more plurilateral arrangements, where small groups of countries get together to try to advance rules on certain parts of the global trading system. That is what the CPTPP was about, and APEC plays an important role – it can help to advance some of the soft rule-making and best practices and principles that can support rules among that group of countries. You may also see other new arrangements – for example, e-commerce agreements or services agreements – in some parts of the trading system where you get like-minded groups of countries together who agree to play by the rules.

The question is whether those rules then need to be applied on a Most Favored Nations (MFN) basis to all members. The problem with that is that it creates a free-rider problem and so I think there is an argument and debate about whether you should allow these small groups of countries to move forward on a non MFN basis and create

a kind of two-tier WTO system where you have a basic set of rules that everyone agrees to, and then a higher-level standard set of rules in specific areas with specific countries that are applied on a non MFN basis. I think you could see a movement to that kind of system in the future, and that is not a pure global system but it may be the most practical approach in the 21st century where we have these major differences and difficulties in getting 180 countries to agree on anything.

JS: Another practical approach might be a sectoral approach, for example, some focus on IT technology products.

Goodman: I think it will be a combination of plurilateral subgroups of the international system and countries, and sectoral issues which are sub-parts of the overall trading system, where you will see most progress in terms of reaching agreements on new rules. That is not perfect, that is the second-best outcome; it would be best if we could get everyone to agree on the same rules at a high standard, but I think that is virtually impossible in 2020, so I think we have to be more pragmatic.

JS: Perhaps the WTO may not be the best place to discuss security and investment, and APEC might be a better venue to deliberate combined issues like national security and trade, or security and investment.

Goodman: I think it will be very difficult for APEC to address those issues. I mentioned that I had worked for the APEC leaders' meeting in 2003 in Bangkok, and it was shortly after 9/11 and we tried to introduce some security norms to APEC. There was a lot of resistance, although we did get some progress on a few areas that were directly linked to trade. But in general APEC members were not comfortable discussing those issues there. I think probably the issues related to technology risk are going to have to be addressed through a combination of national measures. For example, the US and Japan and advanced countries in Europe have investment screening mechanisms and both the US and Japan have just updated their screening mechanisms, and just last week Japan passed a new foreign exchange law to update those mechanisms.

There is also the related issue of export controls; controlling the export of sensitive technologies and critical technologies will have to be done at the national level, basically. There is scope for international conversations about these issues, but those are going

to have to be done in somewhat traditional venues. The Wassenaar Agreement includes many countries to talk about export control. That will be part of the answer but frankly I think that much of the conversation may have to go on in new forums or arrangements among like-minded countries.

I think the issue of digital network security is a very hot topic right now in most G7 countries, and other advanced countries. A lot of this is focused on two Chinese companies – Huawei and ZTE. On this set of risks and policy responses to these risks there is a need for international cooperation and discussion, but at least initially this conversation is going to have to be among like-minded countries like the G7+ countries. Then, I think it is going to be difficult to resolve these issues not only in the WTO but also APEC and other existing institutions like Wassenaar. So I think there are going to be new ad hoc arrangements or conversations to try and address those concerns.

JS: Would regional FTAs like the CPTPP not be a good model for such new rule-making in your view?

Goodman: No, I wouldn't agree. I think that the regional FTAs do have an important role; again, in a second-best world where we can't reach a truly comprehensive multilateral deal in the WTO, we have to be pragmatic and look at regional agreements like the TPP and RCEP, although that seems to be a lowest-common-denominator agreement that is not going to significantly advance rule making. In principle, these kinds of plurilateral agreements are a useful and important vehicle for advancing some rule making; for example, in the digital rule-making space, the CPTPP rules which were originally negotiated in the TPP are pretty good and are a valuable contribution to global rule making. They don't include every country and every issue, and so they are not perfect, but represent a step towards that ultimate objective of a new system of global rules for this important area of digital trade. So I am more positive about regional FTAs.

Mitigating Trade & Security Concerns

JS: The key to mitigating security risks could lie in economic or social domains, with people-to-people connections supporting cooperation rather than confrontation. Would you concur?

Goodman: I certainly believe in people-to-people connections, and trying to find areas of cooperation between countries. This is very important to reducing security risks and the risk of confrontation

between countries. However, obviously that connectivity also creates its own risks. For example, on the people-to-people point, there is an active debate in the US about the role of foreign researchers in American universities and laboratories, and I think there is a similar debate in Japan about foreign researchers in Tsukuba or other technical universities. Of course, most foreign researchers are genuine scholars who are trying to learn and contribute to advancing human knowledge, but there are some risks created by the openness of our research system and I think we have to be realistic about those risks. Just as people-to-people contact has other risks – such as the spread of health pathogens and other problems – there are risks from this openness and connectivity, but of course in general it is a very positive force and I don't think we should limit it, as in general definitely those connections do reduce risks and should be encouraged. But we have to be vigilant and realistic about those risks and we have to be targeted in the policies we use to address and mitigate them so we don't damage the benefits of connectivity.

JS: It could be very difficult for government officials to know exactly what technologies are sensitive for national security. In that sense, how do you see the involvement of the private sector in new international rule making?

Goodman: These technologies are so fast-moving and in some cases complicated and hard to understand for many government officials, so it is essential that we involve the private sector in these discussions about controlling sensitive technologies. The question is how to do that. Consulting with private companies and getting their involvement in government advisory committees is obvious; whether you try to more formally involve them in rule making has some challenges because there are potential conflicts of interest, and private companies may have an interest in getting access to other countries or protecting their own technology. So there could be some conflicts of interest if they get too directly involved in rule making. In principle, getting the private sector involved is very valuable.

Also I think that having better mechanisms for exchange of expertise between government and the private sector through career moves back and forth is part of our system in the US, and while that comes with some risks, in general I think it is valuable to incentivize private sector people to come to government for some period of time and in reverse it is beneficial for the government to spend some time in the private sector, and I think that exchange is very beneficial in these areas.

As we look forward to the next WTO Ministerial meeting in Kazakhstan, it presents an opportunity to have a serious discussion about how to make the WTO work better in terms of expanding its functions, and I hope that governments around the world will see it as an opportunity to advance some serious reforms to this institution.

JS: Other than rules for digital technology, are there any other areas requiring global rules?

Goodman: Frankly, if you look at all the 30 chapters of the TPP, each other of them touches on an important issue from customs rules to competition rules to regulatory cohesion and rules on labor and environment. There is one in particular that I would put at the same level of trade: it is a broad one that was addressed in a single chapter, on state enterprises, and I think this is a very important issue. Everyone has state-owned enterprises including the US and no one wants to eliminate them, but having rules and discipline on state-owned enterprises is very important.

The broader point that I want to make is that beyond a single chapter in one agreement, there is a broader set of questions about the role of the state in the market and I think we need to have a serious international conversation about that. Traditionally, the US and Japan and other advanced countries have emphasized the limited role of the state in the market place and the importance of market mechanisms driving economic progress. Of course, we all have some state intervention in the market but in general the market mechanisms are in the lead and the state only intervenes when it needs to because of some market failure. That is a very different approach to the Chinese approach or other countries where, for example, in China's case the Communist Party has a particular interest and involvement in the economy and that can create distortions and unlevel playing fields and can create problems of over-subsidization and over-capacity and other distortions, and so I think that rules and disciplines or at least international conversations about these issues is a major topic.

Japan's Contribution to Restoring Rules-Based Global Governance?

JS: How do you think Japan can contribute to mitigating these concerns?

Goodman: Japan's role is critical as it remains the third-largest economy in the world and has had its own economic success and

has managed to transfer the lessons of that success to other countries in important ways, including through development policies in Southeast Asia. Many countries are benefiting from the Japanese example and Japanese investment. Japan is also important because it has been a leader in rule making. Until the last 5-10 years that leadership has been maybe half a step behind the US and following its lead, but more recently Japan has stepped up as a genuine leader in its own right in rule making in economic affairs in the region and globally. The obvious example is the CPTPP where against all predictions, after the US withdrew from the TPP and people thought it was going to die, Japan boldly stepped up and said "We are going to try and keep this agreement alive among the remaining 11 members" and worked hard to minimize the number of items that would be removed.

There are two other areas where I am watching Japan apart from leadership and rule making. One is infrastructure investment, where Japan has put out this idea of quality infrastructure and has been pushing that idea in its own policies but also encouraging the US and other countries to follow a similar approach. Most recently at the G20 Summit in Osaka, Prime Minister Shinzo Abe got agreement among his fellow leaders to a set of principles for quality infrastructure, which I think are very powerful. Japan deserves a lot of credit for getting all the G20 members, including China and Russia, to sign those principles.

The final example is data governance. At the Osaka summit, Abe got leaders to agree to his concept of data free flow with trust. Maybe there was not quite as much specific language as he wanted on that subject, but at least he got the title approved and some elements of a new data governance model advanced. I think he deserves a lot of credit for having launched a serious international conversation on data governance. Japan's role, if it can continue to hold that kind of leadership position, is vital to ensuring improvements in global governance. **JS**

Written with the cooperation of Joel Challender, who is a translator, interpreter, researcher and writer specializing in Japanese disaster preparedness.