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U.S.-JAPAN RELATIONS IN AN ERA  
OF ECONOMIC STATECRAFT

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## P R O C E E D I N G S

MS. SOLIS: Good morning everyone, my name is Mireya Solis, I am the Director for Center for East Asia Policy Studies here at Brookings. Our Executive Vice President, Ted Gayer, unfortunately couldn't be here today. He sends his regrets. He very much wanted to welcome our distinguished guests and panelists.

But then that gives me the opportunity to introduce today's program, which focuses on U.S.-Japan Relations in an era of Economic Statecraft. So let me just say a word about what I think is really significant about this theme and how welcoming these visitors from Japan gives an opportunity to discuss the U.S.-Japan angle concerning many of these important trends.

I think it's quite notable that in recent years we have seen governments around the world increasingly tie economic security policy to national security. This is true for the United States and Japan. Both countries are updating their industrial policies to promote science and technology innovations, are shoring up their supply chains in the wake of the global pandemic, and taking measures to recalibrate their economic relationship with China.

At the same time each country is making efforts to balance economic security with proactive economic engagement through initiatives such as the Quad, the proposed Indo-Pacific Economic Framework, and in the case of Japan, the Comprehensive and Progressive Trans-Pacific Partnership.

Long-time allies, the United States and Japan now feel a greater need to consider how they can better coordinate their economic policies to navigate rapid changes in the international order. President Biden's scheduled trip to Japan later this month, in tandem with the Quad Leader's Summit in Tokyo will provide an opportunity to deepen these policy discussions.

And today we have brought together a really excellent panel. And I would like to take a moment to introduce our panelists to all of you.

Kono Taro is a ninth term member of the House of Representatives in the Japanese Diet, representing Canada, West Prefecture's 15th District. Mr. Kono has held several cabinet positions,

including Minister of Defense, Minister of Foreign Affairs, and Special Minister overseeing the COVID-19 vaccine campaign. Currently Mr. Kono serves as Chairperson of the Public Relations Headquarters for the LDP. And is also a graduate of the School of Foreign Service at Georgetown University here in D.C.

Next to Mr. Kono is Shioko Goto, who is a Director for Geo-economics and Indo-Pacific Enterprise and Deputy Director for the Asia Program at the Wilson Center. Ms. Goto's research focuses on the economics and politics of Japan, Taiwan, and South Korea, as well as U.S. policy in Northeast Asia. She's a seasoned journalists and analysts. She has reported from Tokyo and Washington for Dow Jones and UPI.

Yamashita Takashi is fourth term member of the House of Representatives in the Japanese Diet, representing Okayama Prefecture's Second District. Mr. Yamashita previously served as Minister of Justice during the Avid Administration and as Parliamentary Vice Minister of Justice before that. He currently serves as the Chief Secretary of the Headquarters for Implementing the Reform of Party in the LDP.

And my Brookings colleague, David Dollar. He's a Senior Fellow in the John Thornton China Center as the Brookings Institution and host of the Brookings Trade Podcast, Dollar and Sense, which I highly recommend to all of you. Dr. Dollar is a leading expert on China's economy and U.S./China economic relations. From 2009 to 2013 he was a Treasury Economic and Financial Emissary to China. And prior to joining the Treasury he worked for 20 years for the World Bank in various positions focused on Asian economies.

Now I want to say something about the interpretation of Channel 2 for those who want to get the presentation in English, and Channel 10 for Japanese.

And before we get started with this extensive conversation I just want to pause for a minute and say how delightful it is to be with all of you here in this room. It has more than two years for me to be hosting an event here at the Falk Auditorium. We really appreciate your attendance. And this also represents the new normal for events for us because this a hybrid event. We're also very happy to have a virtual audience.

And another note is that we do hope to keep these very engaging conversation with the audience. I'll ask the first questions but believe me, I have not forgotten about you. I will bring you into the conversation. We'll take questions from the audience and we'll also take questions virtually. So that's it just to get started.

Now let me then turn to the substance of our discussion today, and that is economic statecraft and economic security. And I think it's really remarkable how economic security is now front and center in the United States and Japan, and therefore this opens a possibility of new areas for cooperation.

And both the Japanese Diet and the U.S. Congress lately have put a lot of effort on very ambitious bills that have to do with these topics of, you know, semiconductor industry, competition with China, economic security and so forth.

And in particularly in the case of Japan we're very close to the passing of an economic security bill. I think this is a very important new track in Japanese foreign economy policy that will have implications for domestic policy as well.

So my first question goes to Kono-san and Yamashita-san. Can you tell us about the main aspects of the economic security bill? What are the drivers? Why now? How will it change Japan's domestic and foreign economic policy?

Kono-san.

MR. KONO: Okay. I'm designated. Okay. Thank you very much, and I really appreciate this opportunity. And so three years ago I made a speech as a justice minister in CSIS. But this is my first time here in Brookings Institution's most prestigious think tanks to say something publicly. So I am getting a little bit nervous, but I try.

And so, your question. Actually economic security is relatively new to Japan. That has become a kind of international standard in this economic statecraft era which some countries take advantage of their economic power to accomplish their political purpose.

And we have prepared for a bill in responding this international trend, and the economic

security law is a past comprehensive law for Japan to address economic security issue. And the new bill consists of five pillars.

One is making national policy for economic security. A second, securing separate share for critical materials, and a third, securing security of critical, securing the security of critical infrastructures. And fourth, promoting public/ private cooperation for, say, cutting edge technology and devices such as AI or quantum computer technology and space and so on. And five is secret content for the sensitive innovation.

And the law may have some impact on economic activities by private sector, but this law will improve the vulnerabilities and the secure economic activities by private sector not only in Japan but also U.S. and other allies, allied countries.

And this law is in line not only with U.S. policy but also in line with EU policy which declares often strategic autonomy. And so we are expecting this law completed maybe within this months. Yeah. Thank you.

MS. SOLIS: Thank you. So a very timely discussion. And, you know, I think that Japan really has an opportunity to be a front runner by clarifying economic security bills in this comprehensive way. I understand that there are many challenges, and the way I see it is as a balancing act between promotion and protection.

MR. KONO: Uh-huh.

MS. SOLIS: Between securing critical infrastructure, critical technology, but not then hindering innovation and the exchange of ideas and how we then attract talent also I imagine is going to be a very important consideration here. And the redefinition perhaps of the relations between government and the private sector. Because I think that when we hear certainly the United States when we have this conversation is that not always the private sector is on board with many of these measures because they're concerned that these may unduly restrict their activities.

So I think that those are important elements that we should pay attention to.

And if I could bring David and Shioko, and comment both if you want about the Japan bill,

but also importantly about U.S. efforts. Because I think that the atmosphere has changed in the United States. A lot of it is fueled by the strategic competition with China. But we hear a lot about on shoring, we hear a lot about cultivating strategic sectors, and we hear a lot about subsidies and government taking on more of a role in guiding and subsidizing these activities.

This is not necessarily a tradition we've had lately in the United States of industrial policy. So I wondered, David and Shioko, what do you make about current U.S. discussions and policy, possible policy measures on supply chain resilience on Made in America efforts?

MR. DOLLAR: Well my perception, Mireya, is that, you know, you've got some executive action, you've got different bills in Congress, House, and Senate at least passed a kind of competition bill. They now have an enormous committee to try to reconcile.

I think when you unpack it I see it as a mix of good and bad measures, just to be very frank. So I don't have any problem with \$50 billion to subsidize the semiconductor industry, you know, critical modern technology, and big firms like Samsung, Intel, Texas Instruments, they're all responding positively to this. So I don't view industrial policy as a dirty phrase.

But then having said that I think the whole effort has some protectionist elements which are really bad. So the Buy America, that's frankly the worst. I mean, you know, we have a Government Procurement Arrangement among advanced economies, countries like China have not signed up for the GPA. The countries in the GPA are mostly our partners like Japan, European countries. So, you know, free procurement among that group of like-minded countries, that's efficient and it promotes our mutual relationships. So I think any effort to move away from that commitment to open procurement, you know, I think that's going to be costly.

I mean you just look at some of the price differentials. Like they're talking about using only U.S. made steel in some of the infrastructure bill, for example. Well in many cases it's 30 or 40 percent more expensive. So what means is for a certain amount of money you're actually going to get 30 or 40 percent less infrastructure, you know. The point of the bill is to build roads and bridges and shore up water supply. If you insist on Buy American for all the different elements you're going to end up

getting about 30 or 40 percent less than you would otherwise. So you're not meeting the objective of the bill.

So I just think we need to parse these different ideas and endorse the ones that are actually going to make America more competitive and secure, and then stay away from this trend toward protectionism.

MS. SOLIS: Thank you, David. Shioko?

MS. GOTO: Yeah. First of all, thank you so much, Mireya, for inviting me here today. It's a great honor and privilege to be here, and it's really wonderful to see a full house like this. And it's my honor and privilege to be with Ministers Kono and Yamashita as well.

So I do want to make two main points. One is that when it comes to the United States and its position on China, it is one of the few issues that actually unites the country. And there had been concern in Japan that under the Biden Administration that kind of opposition and concern about China would dissipate somewhat. And the fact that it hasn't has been welcomed. But at the same time there is a divide on how to tackle that China challenge. And I would argue that the words industrial policies still remains very much a dirty word here in Washington, D.C.

There is also a deep divide between what the United States is doing on the military front in the Indo-Pacific and on the economic front in the Indo-Pacific as well.

And so on the military front it has really been at the forefront for seeing not just the consolidation of existing networks and outlines as in partnerships, but also the emergence of new partnerships and alliances and, you know, it occurs to me, one of them. So it's more of an intervening, more of a solidifying or meshing of existing frameworks, which has been welcomed by America's traditional allies in the region.

However, although both Japan and the United States do share this, have a common threat perception about China and it's violation of the rule of law, and the threat it poses to the established economic architecture of the region, those shared interests between the two countries has not actually led to concerted action. There is also a disconnect between what Washington is saying rhetorically on the

economic front and also when it actually manifests itself on the policy front as well.

If I may, just one thing about the Japanese economy security legislation. If I may, there has been criticism within Japan for some would say that the broader national security legislation should have come before a specific economic security focus. Some are concerned that this is actually not leading to greater security, military security, but it could actually be an instrument for economic stimulus and perhaps more protectionist measures by the Japanese. That's certainly a voice that we're seeing in Japan.

And then outside of Japan one of the concerns that have always been cited, especially in Washington, is about the Japanese ability to protect sensitive technologies and balancing private/public partnerships in protecting sensitive technologies' secrets. And although the legislation is moving forward and that is being addressed, there's still that concern that remains.

But to conclude, Japan has really been at the forefront of economic statecraft. Since World War II it really has been able to link to technology cooperation with investment and furthering national security as well. And there is great expectation on Japan not only to be this bridge builder in moving forward with multilateral trade agreements but also addressing some of the many concerns that are emerging on the economic security front.

MS. SOLIS: Thank you, Shioko. It's interesting, industrial policy, we've heard different views, dirty word, not dirty word. I would say loaded word when you talk about U.S./Japan relations because there's a history there, there is baggage. It used to be a focal point of friction in the late 1980s, early 1990s. And of course the world has changed, it's a different geopolitical situation, both countries have moved forward in their trajectories and I think that there is enormous convergence on the basic and strategic questions and certainly when it comes to a concern with China's course of civic economic behavior. But we'll get into that, that's another issue that we really need to discuss in detail.

But nevertheless if we think about, you know, supply chain resilience, promotion of technological innovation, and the use of industrial policy to achieve those goals. How can we make sure that this time this is an area of collaboration and not division? Let me give you an example.



I remember reading a Middle East strategy document on semiconductors from last summer where they noted with one of the concerning trends that they noted was that many governments are subsidizing their own semiconductor industries. So the subsidy race is not just vis-à-vis China, but it can also happen amongst like-minded countries.

There is also a concern on whether we're going to be disciplined in awarding these subsidies to the best, most competitive firms or not. So rent seeking and subsidy race, I think are potential perils.

And likewise when you read the White House Supply Chain Resilience Report there's a lot of ally shoring reference. But again, going back to David's point, it's very straightforward on Buy America, Made in America, and showing us really what we care about.

So how we make sure that these possible divergences do not become predominate and we actually stay closely coordinated achieving the common goals? I think Kono-san.

MR. KONO: Okay. Thank you. Well good morning. It's nice to be in Washington. It's nice to be jet lagged for the first time in three years.

Yes, we were talking about economic statecraft vis-à-vis China, and that's how we start this debate on the bill. But as we look at the Ukraine situation I think we need to move one step forward. It was fairly easy to put the sanction against Russia. We may have to suffer a little bit when we terminate import of Russian gas or oil and coal, but we can survive.

But if we are to believe China would try to reunite with Taiwan and they will probably start not with kinetic warfare, but with some kind of coercion. Then international community need to start putting sanction against China. Then China is number one trading partner with Japan and our supply chain is closely intertwined with China. So when we do the sanction vis-à-vis China, I think we're going to be bleeding too.

So we need some kind of correlation among the like-minded countries. Okay. If we are to be ready for Chinese coercion vis-à-vis Taiwan we need to consolidate strategy among the like-minded countries. And where we're going start and which timeframe, and what are the product that we are to

divest out of China or to on shore to each country? We need a coordinated strategy, otherwise if some country wanted to divest on shore, someone else might try to come in and cut the market share in China or try to steal the production capacity in China. So we're going to be fighting among ourselves, that would be beat the original objectives.

So we need a consolidated strategy vis-à-vis China. So that would sort of deny any selfish subsidy or selfish industrial policy using China as a pretext. So I think it's time for us to sit down and come out with consolidated strategy how we're going to be ready just in case for China's not invasion, but coercion vis-à-vis Taiwan. So that's one step forward.

And then particularly for semiconductor, yes, we cannot continue relying on Taiwan's capability to develop latest technology on semiconductors. So we'll probably need to create some kind of consortium among the like-minded countries to try to develop semiconductor technology among ourselves so just in case something happened to TSMC or something happened to Taiwan semiconductor industry we can replace them with our own capability.

In order to do that I think we need to sort of agree to set up some kind of consortium, share the technology, share the investment into this field. So we need to identify critical field if there are anything other than semiconductor that we need to work together. And for those identified fields I think we need to share the investment, we need to share the technology, we need to share the outcome. So can we do that, that's the major question?

MR. SHAH: Thank you so much, Kono-san, for that very insightful answer that highlights how the geopolitical challenge focuses the mind, and then some of the specific mechanisms like a consortium that would allow for this collaboration to take place would be beneficial.

And I think that provides the perfect segue to what I would like to discuss next with the panelists. And I think that a lot of the discussion on economic security and economic statecraft that we see happening in the United States and Japan has to do with China's own economic statecraft and the role it's playing in the world economy, but also how it's using economic tools to advance its foreign policy interests, and sometimes in a more coercive way.

But China itself is changing and we now hear the articulation of a new vision by Xi Jinping, the dual circulation strategy where China is trying to improve its own self-reliance. China also feels that the international environment is becoming harsher. But at the same time China positions itself as a champion of globalization and wants to retain that essential place in the global supply chain. So it speaks both of greater autonomy and resilience, less dependence, but also integration and centrality to these integrated production networks.

And, David, I would like to turn to you on this question. Is China on track to meet these objectives? Are there tradeoffs on trying to achieve, can you have your cake and eat it too, let's put it that way?

MR. DOLLAR: Thank you, Mireya. So, you know, I think you're right that there is inherent contradiction between the Chinese desire to be more self-sufficient in technology and natural resources on the one hand. And on the other hand they've been very aggressive about signing new trade agreements, you know. Basically they were a leading force in getting the RCEP, the Regional Comprehensive Economic Partnership approved. And they've applied to join TPP. I look forward to hearing what Japanese friends have to say about that. And they negotiated investment agreement with Europe which is on hold, but China would like to, you know, to see that.

So I don't think the Chinese leaders have any problem dealing with contradiction, you know, they can pursue, you know, self-reliance and deeper integration at the same time even though there's something of a mutual contradiction there. Okay.

Now in terms of the self-sufficiency, it's early days but I would say that, you know, I see mixed results and I would expect mixed results to continue. China's hit about 25 percent of U.S. productivity on average, it's far behind technologically, it's very hard to leapfrog in the way that they're trying to do. And a lot of their subsidies are aimed at state enterprises and they're not very efficient and innovated. Most of the innovation comes from the private sector, most of the patents go to the private sector.

So I think they would have to adjust their strategy to be more private sector focused in

order to have, you know, a better chance of getting advanced in some of these technologies. There will be exceptions, they may end up being a leader in AI. It's very unlikely that they'd put all these resources in and not have a few successes. But I think frankly this western worry that China's going to end up dominating all the technologies of the future, that's not how history is usually played out, and in the case of China this reliance on state enterprises is not particularly effective.

MS. SOLIS: And, David, that's very interesting. On that point something that has struck me is on the semi-conductor sector that already has been mentioned, you know, China has subsidized very heavily the industry and China's not yet at the cutting edge in producing semiconductors. But actually has been a source of vulnerability with the U.S. resorting to the entity list and the ability of the United States to have leverage because of the U.S. competitiveness in design and so forth.

So why is this the case, if we're so focused when we talk about economic situations on some of the specific sectors? The semiconductor industry is front and center. And I know you follow China very closely. What do you think has hindered technological deepening in this important sector?

MR. DOLLAR: Well I think, you know, partly it's just that, you know, as I said, leapfrogging is very hard to do. It's much more natural to have a gradual process of advancement, and they start out far behind, you know. So a gradual process of advancement means they're making small increments in sectors, you know, semiconductors is a great example.

And then Xi Jinping, President of China, he seems quite determined to rely more on state enterprises less on the private sector. Most of their success over the last few decades have come from the private sector. So he's, you know, he's going against the wind basically in terms of what has worked for China.

MS. SOLIS: Thank you.

MR. YAMASHITA: Oh, yes, that's right, so China has a huge subsidiary, maybe 5 trillion yen to the semiconductor industry, but so the weak point of China is that key technologies for the most semiconductors has been mainly controlled by western countries, by U.S. United States raised designing advanced tips, and Japan provide main devices or materials indispensable for manufacturing advanced

tips. And Taiwan, as Kono-sensei said, manufacturing hollow chips and 70 percent of the high-end chips.

So at this moment China is kind of, I mean reached that level. But with that huge subsidiary where they're set for concrete purpose, we don't have any time. We don't have much time. I mean maybe China will, I mean overcome, I mean catch the western countries. So that's why we are, I mean we are having other economic security bill. Yeah.

MS. SOLIS: That's very interesting. So China has its own difficulties, it's not going to succeed in all sectors but there's no room for complacency either. And it's important to be smart about the competitive measures that each country pursues.

And then I want to bring, you know, the rest of the panel on a broad question. Because I really think it's fundamental to the potential of U.S./Japan collaboration and economic security. You know, Shioko mentioned shared perception and that's what my question gets at.

Is there a shared perception on the China challenge on the consequence of China's economy statecraft, and is there a shared understanding of the best strategy to address it? For example I think that words like decoupling don't resonate in Japan the way in which they have resonated in some circles here. Or the U.S. resort to tariffs as the main way in which to deal with China, or even very broad tech restrictions. So can the allies collaborate when it comes to tools to address China's economy statecraft?

MR. KONO: I think we share the sense of threat coming from China. But as you just said, how are we going to counter that? I think we already parted our way. I think when the United States propose us to be part of TPP, it was to set a new rule or to create the rulemaking body for Indo-Pacific. And that's why we pay a huge political cost but we decided to join TPP. And when we managed to sign the TPP, United States simply left TPP. And now the Biden Administration talking about Indo-Pacific Economic whatever. I would say forget about it and just come back to TPP.

TPP is to set a rule for not only trade but labor environment, intellectual property right and all those things. So that was supposed to be new rule making body for Indo-Pacific. And the TPP set such a high standard, China national governmental industry are not able to meet those targets. So

U.S./Japan was supposed to be the rule making for Indo-Pacific. But I think the idea is falling apart. So hopefully the American government or the American leader would come out and, you know, get a rude awakening and decided to change their policy around to come back to TPP. I think that will be the best tool to regulate a whole bunch of fields for Indo-Pacific.

MS. SOLIS: Thank you very much, Kono-sensei.

MR. YAMASHITA: I'd like to add Kono-san and so China is already, as David said, the party of the outset Regional Comprehensive Economic Partnership Agreement which consists of ASEAN, Japan, China, Korea, Australia, and New Zealand, and plays a leading role in that agreement with China. So if China joined the CPTPP and (inaudible) that means China will gain the controlling power in the two largest trade agreement in Asia-Pacific area. And that may have heavy power of China for that.

And so I think the U.S. government should realize the, I mean risk of that. And in the specific economic framework is, to my knowledge, I am a justice guy, don't think only guy, but I don't know exactly about the content of the IPEF. And several of our friends of Japanese industry doesn't know that. And I think if IPEF is the norm binding legal framework maybe it could send a message to the Asia country, I mean the United States is not so much interested in that area. So that's why I feel like old the western movie Shane, so U.S. come back to the TPP. So that's our sentiment.

MS. SOLIS: Thank you very much. And I want to get into more detailed discussion of both CPTPP and enlargement process and IPEF as well. But it's good to know from the get-go your positions.

But I want to make sure either David or Shioko had some comments on this broader question about U.S. and Japan and the China competition. If not we can move on to the next element of the conversation. But didn't want to skip over you.

MS. GOTO: Can I just say one quick thing about economic coercion and China's dual circulation strategy.

China is weaponizing economic interdependence. And we know that Japan has been at the receiving end of the Chinese economy push and well before Australia or South Korea. And that has

happened since China overtook Japan as the world's second largest economy in terms of GDP in 2010.

What we also know is that China's interest is not to follow or court or be in the broader umbrella of the western based international liberal economic order, but to create its own model. And the dual circulation strategy, yes, it is about greater autonomy and domestic resilience with the Chinese economy base, yes. But it's also about a greater partnership in alliance and encouraging dependence by emerging markets. And we're seeing that.

So as Japan and the United State and the Europeans focus more on consolidation of the G7 and expanding that, China is really making headway in courting Latin America, in courting the Middle East, and now the forefront is going to be Southeast Asia. And I think that the time is not necessarily on the United States' side, but there is great complacency here in Washington about that whatever the United States proposes will be palatable and desirable in Southeast Asia.

MS. SOLIS: Great.

MR. KONO: When China talks about free trade, they're using that as a tool to get other countries depending on Chinese economy. So as time goes by they can use the tool more effectively. And when we look at the Ukrainian situation we all talk about natural gas going to Europe and how are we going to manage Europe without gas coming from Russia. But we hardly talk about countries like Egypt, which depending on wheat from Ukraine and Russia or other countries like Pakistan or Bangladesh or UAE. We hardly don't talk about. We hardly talk about those country, how are we going to manage to send the wheat to those countries.

So we are sort of not looking at globally and we need to be more careful about, as she said, in courting African country, Middle Eastern country, Latin America country, so they can go along with us.

MS. SOLIS: Thank you very much. Great point. You know, going to the CPTPP and the Indo-Pacific Economic Framework, I think that it's very clear from the panel that one area where the United States and Japan unfortunately are not aligned is on the willingness to pursue comprehensive trade agreements. And I think that therefore when we talk about the expansion of the CPTPP, and it's

interesting to note that it's a high bar to clear but nevertheless the number of aspirants is growing. It's going to be Japan, when we look at the alliance, it's going to be Japan who is addressing this question more directly in cooperation with the other 10 members of the CPTPP.

And there being a number of accessions that are particular significant for the future of the CPTPP, the one from China and the one from Taiwan. So two questions.

One for David. David, I think from your Yamashita-san comments it's very clear why China is doing this. When I first saw China's bid I thought this is a smart move. If I was a Chinese policy maker I would be doing this because it gives you an opportunity to get under the hood and then you decide who comes after you. And it gives you an opportunity to mold that trade agreement. And it also counters any narrative of decoupling if China is part of the two largest trade agreements and is an agreement that is going to promote further integration, again there's an upswing economically, diplomatically, economically, commercially for China.

But from the point of view of existing members I think the fundamental question is what are China's intentions when it comes to adjusting to the CPTPP? Is China seriously trying to reform its economy like it did when it joined the WTO? Is it really about addressing those difficulties you mentioned, David, that are hindering the technological deepening and therefore live by the standards of the CPTPP? Or is it about playing with the rules, look for the carve outs, look for the exceptions, and make sure that your industrial policy and your digital protectionisms are not hindered and nevertheless you get the membership benefits? What is your reading about what China's after?

MR. DOLLAR: The simple answer is both, you're right. So again, I think it's very important to keep in your mind the idea that Chinese leadership has no problems with contradiction, right?

So there are a lot of things going on here. Part of the application to join CPTPP is simply kind of tweaking the United States. You know, there's a certain ideological gain I guess just by applying, even if it takes many years, maybe it never happens. But, you know, they get a little benefit so that's partly what's going on.



But also remember there is still a group of economy technocrats, you know, they make efforts to, you know, cut bureaucracy, make it easier to start new firms. There are always examples you can point to of liberalization going on in China. You know, for example in the financial sector or electric vehicles now where you have 100 percent foreign ownership in investments. So it's a really complicated contradictor place where there can be some genuine move toward more market reform which would be supported by CPTPP, and then on the other hand there also can be some of that kind of cynical posturing you're talking about that, you know, they would bring enormous benefits to the existing 11 members. So they're going to use that weight to try to negotiate a favorable deal. Some aspect probably, state enterprise chapter, certain aspects of CPTPP, they will try to negotiate some kind of carve out or extremely long phase-in, 20 years, which is so far into the future that it's practical meaningless.

So I think they'll do both. They'll try to shape it in a direction that's beneficial to themselves and allow them to maintain a lot of their industrial policy and state-oriented economy, but then also there is an element of appreciating the globalization has been very good for China, and they want to see it continue.

MR. YAMASHITA: Yeah. So one thing is, that's my personal view. And so we do not consider high free trade standards of CPTPP only for the schematic. And in relation to that we have to consider about that because the accession of CPTPP made only by consensus, consensus support by parties.

Let's suppose China is member of the CPTPP, then after that Taiwan or even United States want to join the CPTPP. China can block consensus. So the Taiwan or the United States never be a member of the CPTPP. And of course Taiwan is a member of the WTO and the APEC and has 21st largest economy in the world and the sixth largest economy in Asia, after Indonesia. So and the CPTPP is not limited to members for state. So Taiwan, my personal view is Taiwan's accession will provide good inference on CPTPP but order of the accession we have to be more careful, I mean, so such kind of accession harder or something like that. That's my personal view.

MS. SOLIS: Thank you. That's very interesting. And, you know, it's not just about the

China bid, but I think also the Taiwan request to join. I think it's been very interesting to watch Japan/Taiwan relations in the past few years. They have improved, they have deepened, there is a lot of policy dialogue. These are fellow Asian democracies, sophisticated technological powers, open to trade and investment. And Taiwan also has taken some courageous steps when it comes to eliminating the ban on the import of Fukushima products.

So, you know, Japan is a leader of CPTPP. It's a decision made by consensus but I think that a lot of members look to Japan to understand Japan's position. I wonder if Kono-sensei or Yamashita-sensei would like to say something about Japan/Taiwan in the context of the CPTPP.

MR. KONO: Well Taiwan is very welcome to CPTPP and they politicize the import ban on the Japanese food product, and that was very stupid move of the Taiwan's opposition party. That delayed simple application to join the TPP. They could have done much earlier. So if Taiwan decided to, I mean I think they will decide to join TPP, they should be a very strong member of this.

MS. SOLIS: Thanks.

MR. YAMASHITA: Me too.

MR. KONO: Yeah.

MS. SOLIS: Wonderful. So then let's move on and talk about something that already has come up, the Indo-Pacific Framework, which is I think the Biden Administration's effort to demonstrate to the region that it cares deeply and understands centrality of economic engagement.

And, you know, as we've been discussing, since the United States left TPP there's that big question mark. Is this enough, is this sufficient? The framework's still not publicly disclosed so we don't know the details. We have some information about the main pillars.

But I wonder if, what is the thought, the feeling in the panel? We already got some of it, but whether you think that this Indo-Pacific economic framework could offer some real benefits to participants in the region and can help U.S. diplomacy in the region gain traction. So maybe David and Shioko, you want to share your thoughts on the IPEF and then we also ask the representatives.

MS. GOTO: I think the IPEF is a brave effort on the part of the Biden Administration and

its acknowledgment that engaging economically in the region is critical. Not just for U.S. corporate interests and for the U.S. economy, but in order to have a more holistic approach to partnerships and alliances in the Pacific Region.

But the U.S. TRs representatives, Thai, and others have been in the region recently to try to promote this but it has not really been very welcomed in the region. Mostly because it doesn't offer a great deal. It does outline some of the U.S. needs about environmental standards and labor rights and the like, additional trade certainly is a crown jewel of one of the pillars that is being proposed.

But what the countries that would be potentially be enticed to join is market access into the United States, and that's not being offered. And for instance when Vietnam wanted to, and is now a part of the CPTPP, it really did so in the interest of its own economic goals as much as anything else, and they wanted access for its textiles and shoes and what have you. To not have that without any enticement is a very difficult thing for them to embrace.

One thing I do want to add also, going back to the Taiwan conversation. Taiwan has made a lot of concessions recently to the United States, to Japan, to make sure that it is concession ready to some of the high standard trade deals that are in the region from which it is excluded at the moment. But it also pushing. It is one of the government's that's really pushing to join IPEF. Not for economic reasons, but for political legitimacy really. And the United States, although it has not revealed the exact content of the IPEF, it hasn't really said that it would support Taiwanese entry, and so that is also another political sticking point for the IPEF's viable future.

MS. SOLIS: Thank you. David, what are your thoughts on the Indo-Pacific Economic Framework?

MR. DOLLAR: Well I agree that this economic framework, we still have to get all the details. But it seems like a very poor substitute for a larger trade agreement for joining TPP, we all seem to agree about that.

You know, I think it's really unfortunate that free trade has become a kind of dirty phrase in the United States. Neither political party seems to be willing to, you know, go to bat for trade. And I

think it's one of the fundamental foundations of our prosperity and our leaders need to do a better job of explaining it to people.

Actually ironically, if you look at public opinion polls in the U.S. they tend to be pretty favorable toward trade, it's just some very small particular interest groups that are opposed to certain things and our political system we're sort of caving into those interests and it's, you know, it's doing a world of disservice basically.

MR. KONO: One thing we could probably pick up from the four or five or whatever pillars of IPEF is probably digital economy. We probably need some kind of agreement on digital trade. So that part, if U.S. politics need to go along with this IPEF, maybe we can just carve out the digital part of it and start negotiating on that. Other than that I think we need to know more details.

MR. DOLLAR: Yeah.

MS. SOLIS: Uh-huh, uh-huh. Thank you. So let me then turn to the last set of questions I have and then I'll bring the audience to the conversation. And it has to do with the implications and consequences of Russia's war of aggression on Ukraine.

I think, again, Japan's response has been very forceful, very unprecedented. Japan has been really on par with G7. I think very skillfully Japan has made sure that this is not seen as a transatlantic issue but one that concerns all countries who care about rule of law and therefore that Japan is front and center in that international effort to address the crisis.

So first if I can start with Yamashita-san and Kono-san. Because I know that this has also triggered some further discussions on Japan on its defense policy, on economic security, on its international role.

How do you expect the Ukraine crisis to conform Japan's foreign policy and international leadership role?

MR. KONO: Well I guess this Ukrainian thing, we failed when Putin invaded the Crimea in 2014, I think we were not live up to the expectation. But this time I think Japan is trying to push a sanction against Russia because we see the implication on East Asia. If we let Putin do away with the

Ukrainian invasion maybe the Chinese Communist Party will think the same thing, and they think the cost of reuniting with Taiwan with some kinetic warfare is much, much lower than then they might actually do it.

So we really need to put up a sanction against Russia and let Xi Jinping know that it's going to be a very high cost, it's probably not worthwhile. Because for Russia it's just Putin, not the system. For China it's legitimacy of the Communist Party would be tested so they have to think twice before they doing something along with coercion, so that's something we need to know.

And then the second thing is I think it's a very much turning point of Japan's security policy. Until now we are saying we'll defend Japan, we will defend only Japan and we will not get involved in others. But if I don't scratch your back, how could we ask you to scratch my back? So anywhere on this planet if the common value of democracy rule of law or basic human rights is violated, I think we need to move together to protect those common values. So that if something happened in East Asia we'll ask them to come over and defend the value here as well. So I think it's a starting point for us to change our security, notion of security of Japan. And I think we really need to think hard how we are going to do it.

And thirdly, while the United Nations, or even the Security Council has been paralyzed because, as Putin has seat in the Security Council with the veto power, the UN is not going to be able to do anything.

So we'll probably need to recreate UN 2.0. We need to migrate from United Nations state to something else. We'll probably not going to be able to amend the existing Charter. So we need to do what the United States did more than 200 years ago. They couldn't change the first Constitution so they adopted the new Constitution and throw out the first one out of the window.

I guess we need to adopt UN Charter 2.0 so we can throw out existing UN Charter to move on to UN 2.0. So that's something we need to do in the long run.

MS. SOLIS: Thank you very much. Yamashita-san?

MR. YAMASHITA: Yes. Yes. I totally agree with Kono-sensei. And so in Ukraine, first of

all I'd like to express my deepest condolences to the Ukraine people whose lives were (inaudible).

And so Japanese people, every day, from the morning to night, watching the reality of the tragedy of the country who don't have enough security or alliance. And so maybe, so Japanese people start to thinking. The Ukraine situation might be similar to the Taiwan or East Asia situation. Of course there is some difference between the Ukraine and Taiwan, but similarities, broader similarity here.

So maybe the Japanese people thinking about the welfare is not only the horror movie, but also the clear and the present danger. So we have to prepare for that. So that's why I'm a (inaudible) for the, I mean constitutional reform headquartered in FEP. And so I feel our people is thinking about, I mean we consider seriously about the sub chapters of the current constitution.

And in addition to the security issue, recently LAP security council, security committee, led by Onon-sensei (phonetic) and Sodo-sensei (phonetic) has issued a proposal about a new security situation, a new security policy, by Japanese government. It's a new movement for the Japanese government. And I think the Ukraine situation caused that kind of reaction. Thank you.

MS. SOLIS: Thank you very much. The last question from me, also on the implications of Ukraine. You know, this is a vital economic statecraft, the use of economic tools for chief foreign policy objectives. And what's interesting about the response has been the unprecedented degree of extensive, coordinated economic sanctions. Now some people fear that this could also then fuel the trend toward deglobalization. Actually we received a question from a Professor in the Royal Military College of Canada, so I want to begin to bring audience questions. Who's asking, is this the beginning of deglobalization? Can economic security be pursued to such an extent that we begin to undermine the benefits of economic globalization? What do we make about these current trends?

MR. DOLLAR: Well in my view I don't think we're experiencing deglobalization yet. I think the speed of integration is slowed down. So you sometimes hear the phrase, we went through a period of hyper-globalization and now we're in slowbalization, which means things are progressing slow.

But there are always examples around the world of deeper, you know, deeper integration. So I don't think we've reached the deglobalization yet.

I do think the coordinated use of sanctions is quite extraordinary. It seems to be very powerful. It's early days, but probably it's going to have a very serious effect on the Russian economy and reduce the ability of Putin to do this kind of thing. So I think it's a good example of coordinated use of powerful sanctions.

Having said that, you know, it will definitely seed some deglobalization efforts. You know, there will be more effort to get around using the U.S. dollar and settle in different currencies, and central banks will be looking to diversify their reserves. They're going to discover that that's hard, in fact probably impossible, you know. If you have vast amounts of money there's very little you can do except put them in U.S. treasuries. So I'm not really worried about erosion of the role of the dollar but I just think analytically, you know, this has to have a small effect of central banks and other players trying to find workarounds. But they're going to find that one's really hard. They're not going to succeed in that in the next few decades.

MR. KONO: I think deglobalization is already happening. When you look at the Faraday, it may be cheaper to use Faraday product to build 5G network or network after that. But for the security reasons we are not using it, we are trying to use the other technology, which may be more expensive but I think that's the price we have to pay for the security.

So I will say if we are to look at China and try to prevent Chinese coercion against Taiwan, I think we need to move economically as well. So that means getting China out of the global supply chain for critical product. So we will pay higher price, maybe technology development will be slower. But I think that's the price we have to pay to keep our security.

MR. YAMASHITA: Yeah.

MS. SOLIS: Thank you so much. So to the audience. You have been extremely patient. Now I would like to bring your questions. If you can please raise your hand then the mics will come to you. And when you get the mic, these gentlemen, please identify yourself and ask a concise question.

I'll take two at a time so that I can incorporate as many voices as possible. Go ahead.

MR. DELANEY: Thank you very much. Robert Delaney from the South China Morning

Post, Washington Bureau. If I could ask a question to Kono-san, Yamashita-san. Just regarding Secretary Blinken will give a major policy address tomorrow about the administration's China policy. And I was wondering if one of you could comment on what it is you're hoping to see in terms of whatever policy points, whatever helps to cement a closer relationship between the U.S. and the larger Indo-Pacific.

And also, President Biden will visit Tokyo next week. And so I'm hoping maybe you could also give us some comments about what you're hoping to see out of President Biden's visit. Thank you very much.

MS. SOLIS: Thank you. And if I could add one question, the gentleman behind you. Thank you. And then I'll go to this side of the room.

MR. TOMKIN: Robert Tomkin with Congressional Quarterly. In the wake of the Ukraine invasion there have been calls in Washington to change the Taiwan Relations Act and to make the notion of strategic ambiguity less ambiguous. Given what the debate is in Washington, I've also heard that within Tokyo there have been a number of simulations done over the past couple of months, war games simulations, in which once Japan was faced with a potential Chinese invasion of Taiwan, the legal structure right now, not necessarily because of Article IX but because of other legal restrictions, basically prohibited Japan from taking part in any response.

Can you just talk about the likelihood or the possibility of making any legal changes that would address the issue?

MS. SOLIS: Thank you very much. Any responses from the panel?

MR. KONO: For China policy we haven't seen it so I'm not sure if we could comment on it. But I hope it would be very strong. And when President Biden comes to Tokyo I think there's going to be a Quad meeting and we hopefully create a very solid Quad.

We expect U.S. to be less ambiguous about Taiwan situation. I don't know whether that could be made in public or just make sure that China knows America's intention. But I think that's what the Administration is trying to do.



The legal thing, yes, people talk a lot about it. There is some kind of legal difficulty which doesn't make it impossible, but you have to make judgment on, you know, are we entering into the next phase or are we still in existing phase, how we going to change the phase? So we could simplify the legal situation probably better. I think we need to do a lot of war games and see if we can make decision quickly enough as situation progresses. And if we are not able to make quick decision, then I think we really need to come back to the legal side of discussion.

MR. YAMASHITA: Yes, as Kono-sensei said, under current legal system we can do something. I mean for the Taiwan contingency. But it depends on what United States will do with Taiwan and what is, I mean what Taiwanese people will do. So maybe it's a way Japanese government or Japanese posture have to think about are what we can do under the current registration. And real reform, constitutional reform, is coming after that.

But the situation has changed because in those days each politician, especially LDP politician, talk about the constitution reform, they got fired. So, anyway, this situation change and people is thinking seriously about, they're talking about this, I mean situation. Yeah. Thank you.

MS. SOLIS: Thank you. More questions. So this lady, and then we'll go to this gentleman.

FEMALE SPEAKER: Thank you for all the panelists, I have two questions. First I'm from the University of Ottawa, just visiting here.

The first question is about when you said the semiconductor model and role expert control framework that U.S. and Japan is discussing on this. And also I heard there was news about the potential chip 4 framework that the U.S., Japan, Taiwan, and South Korea may have.

What do you see the benefits and influence of the global semiconductor industry of this? And also the influence on China.

And the second question is about how do you see the balance of efficiency and security when you talk about we replace all highway and ZTE equipment in U.S. And now today's news is about the high vision camera in U.S. that this may cost billions of dollars for the United States government. But

how do you see the balance between the national security issue and also the efficiency of the economy.

Thank you.

MS. SOLIS: Thanks for your questions. And then right there, this gentleman, he has his hand raised, he's in the middle. Thank you.

MR. COVEY: Thank you for the discussion. I am Cas Covey, Moto Vania Corporation. So as a private multinational company we have had a very simple but a very critic dilemma in terms of the national security. So what do we or with the government would do if we comply with the iconic security role or rule or even fashion in one hand. And the other hand, we which we might be punished by other countries, like China, because they have taxation laws or even EU, they have a Brookings statute.

So I want to ask you whether you think the government should design any remedy method for such a case or this is just a company responsibility or adjustment? Thank you.

MS. SOLIS: Thank you. Very interesting set of questions. I know the panelists have thoughts on them.

MR. KONO: Not using Faraday or Zilla technology, that's the price we have to pay for the security. And if we need to add some other Chinese product to the list, well so be it. We will spend more money, but I think we cannot trade our security for money. So that's something we really need to ask our industry to develop technology and not using Chinese technology in certain field.

I think we need to identify what are other critical fields and we need to ask industries not to over comply those rules. The question is if we are not regulating certain sectors, often Japanese companies tend to go over the rule and try not to overstep, but I think we have to make clear rules and ask the industry to just go to the text.

Semiconductor, yes, we will probably need to team up with U.S., Japan, South Korea, Taiwan, maybe Europe as well. We need to come up with some alternative. But I understand that would give less insurance to Taiwan. So it will be quite difficult how to balance the security for Taiwan. If only Taiwan has the latest, most modern technology. I mean we all have to go and protect Taiwan better. If everyone else has the same technology there's less incentive economically for the value wise it's

different. So it's a very difficult decision. But I think we need to have some kind of insurance for the global economy as well.

MS. SOLIS: Thank you very much. We have one minute left. I don't know if the panelists want to have any final comments or regarding the questions. But just to take the sentiment. Shioko.

MS. GOTO: Yeah. Just quickly to answer a response question which hopefully wraps up my comment.

Japanese companies, companies doing business in the United States are having a challenge with doing business in the United States. Not necessarily because of lack of transparency, but consistency. So the United States had a very tumultuous Trump Administration that legislated a number of tariffs and the like. There is another election coming up. We don't know how the government changes will impact legislation and trade policy. And so that is always going to be a challenge for doing business from here on out.

MS. SOLIS: Thank you, that's an excellent way to end the conversation today. Please join me in thanking the panelists for sharing their insights for all of us.

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