

**“Australia, the US and the Trans-Pacific Partnership”  
Address to the East-West Center & the Pacific Forum-CSIS**

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When President Woodrow Wilson rose to his feet on the 8th of January 1918, the world was in the throes of a great war, and America decided to take a leadership role in defining what peace would look like. It was the first time that the United States sought to describe the world that it wanted. And, equally importantly, it was the first time the United States declared its intention to engage with the world.

Since then we have seen the dissolution of a range of traditional and great empires, from the British Empire to the Soviet Union. All the while, with some variations, Woodrow Wilson’s 14 point plan has endured. Most relevant to today is Item 2 – absolute freedom of navigation upon the seas. A timely reminder in the face of what’s happening in this region.

There was also Item 3, quote, *“The removal as far as possible of all economic barriers and the establishment of equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.”*

Ninety-eight years ago, Woodrow Wilson declared one of the core principles of America’s engagement with the world would be freedom of trade – to remove the barriers, be they at the border or beyond, that impeded the freedom that was going to be the basis for the future of the world, as America saw it.

And those principles, enunciated back then, are as relevant today in the 21<sup>st</sup> Century as they were at the beginning of the 20<sup>th</sup> Century.

This is why I am puzzled by some of the debate in the United States today – but more on that in a minute.

By any measure of economic growth, the **Asia-Pacific region is undergoing a phenomenal transformation**. At the heart of this transformation is a growing, consumer-driven middle class in Asia of around 500 million people, growing to 3 billion people by 2030.

The Asia-Pacific currently provides two-thirds of the world’s economic output. And Australia is uniquely placed to witness the impact of that transformation because, quite literally, it is on our doorstep. Indeed, our economic prosperity is closely linked to Asia’s, as is that of most other countries in the world.

Last year Australia saw **25 years of uninterrupted economic growth** and a GDP growth rate of 3 percent. If that continues this year, it will be the longest continuous period of economic growth of any developed nation in history.

This was not an accident. Our prosperity has come in large part from the fact that we are an open economy. While we are often thought of in terms of our resources exports, our services exports grew by almost 10 per cent in 2014-15. Agriculture is around 4-5 per cent of our economy, but services are more than 70 per cent of the Australian economy.

That diversification has had an impact on our ability to deal with commodity price volatility and various other challenges. The effect of the Global Financial Crisis on Australia has been considerably less than in many other countries. The Australian economy has recorded better growth outcomes than most other developed economies, many of which have experienced severe recessions and rises in unemployment.

The principle that free and open trade stimulates economic growth and creates jobs has underpinned our great success story for the last three decades. It is a principle that has been shared by various different governments of all political persuasions. It is also reflected in the bipartisan approach to our domestic economic policy settings such as openness, competitiveness, and flexibility.

And our willingness and ability to compete in global markets have been a key part of our economic resilience.

Like most other nations, we have no choice but to be actively engaged in the economic growth in Asia. Three of our top five trading partners are in Asia. Five of our top ten export markets are TPP partners. Economically and strategically it is in our interest to be connected to the global powerhouse of growth, **modern China**.

Modern China is a remarkable story: a \$10 trillion dollar economy with 6 to 7 percent annual growth. Almost all economies larger than \$4 trillion dollars of GDP have growth of only around 2 to 3 percent. Growth of 6 per cent is a remarkable story; a story based on the increasing openness of modern China.

It is hard to think of anything that better illustrates this than the fact that for the last three years on average more than 40,000 new businesses have been set up in China every day.

And nothing illustrates the dynamism of new commerce in China better than the fact that the biggest public listing ever on the New York Stock Exchange was Alibaba, for \$208 billion dollars, whose mission statement is to facilitate the growth of small and medium sized enterprises out of China.

Trade agreements play a critical role for connectivity in the Asian region. By lowering barriers to facilitate greater two-way flows of trade and investment, trade deals increase the competitiveness of our exporters and service providers overseas. And importantly, they improve the attractiveness of individual countries as investment destinations.

Over the past two years Australia has signed new trade agreements with China, Japan and Korea. They are our first, third, and fourth largest trading partners, respectively.

As the WTO Doha Round of multilateral negotiations failed to deliver meaningful outcomes, countries increasingly turned to bilateral or regional agreements. We kept faith that Doha could succeed, but ultimately we had no option other than to pursue market openings where we could. The net result is that we have achieved great deals for Australian exporters and Australian workers.

The Korea-Australia free trade agreement has seen liberalized access in areas such as legal services, financial services, accountancy services and telecommunications. Bear in mind that 70 per cent of our economy is services, but the sector accounts for only around 20 per cent of our exports.

Since the entry into force of the Japan-Australia Economic Partnership Agreement, we have seen a dramatic increase in exports, particularly in agriculture.

Trade agreements allow countries to capitalise on these opportunities. For example, our trade agreement with China means that health service providers get a competitive boost into the Chinese market that is characterised by an aging population and a young community looking for the very best quality healthcare.

Woodrow Wilson's vision for US engagement in global trade and commerce has transformed the US economy. The Australia-US Free Trade Agreement, now in its 11<sup>th</sup> year, is testament to that. The United States is Australia's largest source of foreign investment and our second biggest trading partner. AUSFTA provides the framework and support for trade and investment to the benefit of both our countries.

According to research by the East-West Centre, more than 300,000 US jobs are supported by exports to Australia. Australian companies in the US, such as shipbuilders Austal, based in Alabama, support hundreds of local jobs and suppliers.

According to the US Chamber of Commerce, nearly three times as many jobs are supported by trade than was the case in the early 1990s. And jobs that depend on trade have grown more than three times faster than US jobs more generally.

Trade supported more than 41 million US jobs. That's almost double the entire population of Australia!

According to the Chamber of Commerce, every US state has seen net employment gains that are attributable to trade.

Reducing trade barriers is unquestionably the right thing to do, but it's only part of the picture. Equally important are the **rules that facilitate trade and investment**. Having the right rules in the region is critical. Having enforceable rules in the region is critical, providing the capacity to seek redress if agreements are not respected in a particular jurisdiction.

So this is where **regional trade agreements** come in. Much as bilateral agreements can open up the pipelines of two-way trade and strengthen bilateral ties, regional agreements can create unparalleled opportunity.

TPP is a case in point. It is a fundamental opener of doors for trade in the Asia-Pacific region – a remarkable achievement. It's the most comprehensive, ambitious and wealth-creating trade agreement in over 20 years. And the opportunities the agreement presents are overwhelmingly in the collective interests.

Here in Hawaii, where nearly 1 in 4 jobs are supported by international trade, the benefits of the TPP would also have a real impact. In 2014 close to 60 per cent of Hawaiian exports went to TPP parties. Tariff reductions would benefit many of these exports once the TPP is in place.

The American Farm Bureau estimates that the TPP will boost net farm income by \$4.4 billion dollars once implemented.

Pork exporters in places such as Iowa, North Carolina and Minnesota would see significant gains into Japan as a result of the TPP. Within eleven years, tariffs would be eliminated on more than 65 per cent of tariff lines on pork and pork products.

The powerhouse beef export states such as Texas, Kansas and Nebraska stand to gain from tariff reductions on beef into Japan, currently at 38.5 percent, down to 9 percent over a 16-year period.

Comments that the TPP will be the death-blow for American manufacturing do not stand up to the facts. Manufacturing in the US is strong, according to the US Chamber of Commerce. Output has risen by more than 75 per cent over the past 25 years and exports of manufactured goods now directly support 6.2 million jobs – around half of all manufacturing jobs in the entire country.

With the TPP, tariffs facing US manufactured goods will be eliminated. The facts speak for themselves. With more than 95 per cent of the world consumers outside the United States, the TPP will help drive the export of more 'made in America' goods.

For example, gear boxes for cars made in Michigan would see a 15 per cent tariff in Vietnam eliminated over an eleven year period.

And, the TPP will facilitate regional value chains in a way that no trade agreement has done to date, capitalising on lower tariffs and regional rules of origin to create more opportunities for business to trade.

There has been a massive change in the nature of trade around the world. Global and regional value chains are an increasingly dominant part of the landscape. In 1990, 20 percent of all global goods and service exports were intermediate goods. That is, they were inputs into other goods and services.

Twenty-five years later, the OECD estimated that figure is closer to 75 percent. That means the global output from one country goes to another country, goes to another country, and so on. And most of the world's output now is going to another country as an input rather than the end product.

Goods and services can now cross borders three, four, or five times before ending up in a finished product. The Boeing 787 Dreamliner, assembled in the United States, is made of component manufactured parts from Australia, Canada, Japan, Korea, Italy, France, Sweden, the United Kingdom as well as the United States.

Those components are manufactured from products and raw materials sourced from a range of other countries as well. For example, under the TPP, a lounge room sofa made in Vietnam might be made up of wood from Malaysia, foam from Japan, treated chemicals from the United States, and fabric from Singapore. With the elimination of tariffs on all those inputs, the lounge room sofa will be 10 per cent cheaper for consumers in Australia.

Sounds like a pretty good deal.

We need agreements like the TPP to build and support the supply chains, to harmonize overlapping trade rules, and lower the cost of doing business.

It is important to recognise that the TPP has another role.

When countries choose to link themselves more closely through agreements such as the TPP the more connected, transparent and reliable they become. More interdependency makes them stronger, but also increases the cost of anyone seeking to disrupt these links.

The **national security argument** for the TPP is compelling for Australia just as it is for the United States. Secretary of Defense Ash Carter said recently, the TPP is as important to him as a new additional aircraft carrier in the region.

Eight former defense secretaries of the United States have said that the TPP will deepen the relationships with allies in the Asia-Pacific Region, strengthen the economy, and contribute to a safer world for current and future generations.

It is hard to argue with the collective wisdom of a bipartisan group of over four decades of experience in national security for the United States.

Australia has a long and enduring history on the battlefield with the United States. We have served in every major conflict with the United States since 1918 and remain deeply committed to our defence relationship.

Which is why I take offence at any suggestion that Australia would be party an agreement that would “rape” the United States. Such comments are ill-tempered, ill-considered and simply repugnant.

It takes good mates to give each other the hard truths and the honest facts.

So let me say this: **The TPP is at a critical juncture.**

Failure to approve the TPP will have significant implications for the future of the United States in the Asia-Pacific region. It will have a significant impact on the United States' ability to help to set the rules for the fastest growing economic and military region in the world. Not to mention that the economic benefits may never come to fruition. I want to emphasize that time is not on our side, and the world is moving ahead. Asia is moving ahead. And, as we speak, other deals are being advanced.

Asia's appetite for products, services and know-how will continue to grow significantly. Asia's desire for economic integration with trading partners, including Australia, will continue. Countries will pursue other avenues and other agreements to liberalise trade in our Asia-Pacific region and beyond. The question is: what are the rules of the road that will govern the future of development of an economic and political nature within the Asia Pacific, and who will develop them?

Just two weeks ago New Zealand hosted the 13<sup>th</sup> round of negotiations for the Regional Comprehensive Economic Partnership, or **RCEP**, as it is known. This regional deal brings together the economic powerhouses in Asia and Asia alone. China, Japan, India, Korea, Australia, New Zealand, as well as the ten ASEAN member states. The United States is not part of that negotiation.

Together the 16 countries negotiating RCEP represent almost half the world's population, a quarter of the world's exports and 30 per cent of the world's GDP. These percentages are set to increase as the economies, workforces and trade shares of China, India, Indonesia and others and other emerging regional powers continue to grow.

For Australia, RCEP represents a significant opportunity, covering 9 of our top 12 trading partners, and 70 percent of our current exports. We want RCEP to be concluded. And we want it to be as high quality as possible. This year, we've seen a sharp uptick in the momentum associated with RCEP negotiations. That momentum

has tended to increase with increasing debate about TPP here in the United States. Negotiating countries are now driving to conclude an agreement as soon as possible.

The signing of the TPP in February of this year sent a message to the world that the trade landscape in the Asia Pacific is changing. It demonstrated that regional deals could deliver ambitious, comprehensive outcomes for trade and investment in the 21<sup>st</sup> Century. So as we work towards ratifying the TPP, Australia will continue to pursue other avenues to liberalise trade in our region and beyond.

We are negotiating bilateral trade agreements with India, Indonesia, and looking ahead to the launch of negotiations with the European Union and others. I want to say emphatically, **Asia will not wait** for the opportunity to come to it. It will not wait for other countries – maybe even other parliaments – to make a decision about whether they are committed to free trade or not. The pace of growth means that waiting is not an option. And Asia will create those opportunities if others don't.

We do not want to see the United States lose its opportunity to participate in the future leadership of the Asia-Pacific region as proposed through the TPP.

Advocating in support of the TPP will continue to be my highest priority. The conclusion of the negotiations last year was no mean feat. Twelve countries of diverse sizes and levels of development managed to agree on a high-quality agreement, with a broad set of rules. Those rules are meant to set a new standard for the Asia-Pacific region. And there is much to be gained.

We didn't get everything we wanted in this deal, but we and every other TPP party achieved gains additional to the status quo, and that is important, because trade reform is an incremental process where we capture gains and we keep walking in the right direction.

These are living agreements.

I understand that trade votes are tough. We had tough deals to get through our Parliament in Australia. There is nothing new about difficulties associated with getting deals through a domestic parliament. This is not unique to the United States. There is nothing new about elections in a range of different countries. Japan is going through an election. Australia is in an election. And yes, the TPP can be controversial. So there is very little sympathy in other countries for some of the challenges faced by the United States in this environment.

And that's why I want to emphasise that **the deal is done**. There will be no re-opening of the Agreement. It is not an option.

Some countries, like Malaysia, have already approved the agreement. How can a government tell their Parliament that we have to go back and re-negotiate because some other country or some other parliament is unhappy?

It is not happening.

What's more – and I want to emphasize this point – when countries enter into negotiations, they do so in good faith that the government of another country speaks for that country. If your parliament constantly vetoes individual agreements agreed to by other governments, what sort of negotiating environment is that for future agreements?

You know, like the United States, Australia has its fair share of free-trade sceptics. And, in fact, the political parties back at the beginning of Australia's modern Commonwealth, in 1901, were basically free-trade versus protectionist parties. So we have our very deep political roots in disputes about free trade. But, like the United States, we're a nation whose prosperity has been built on free, open markets and participation in global commerce. As a nation, we produce far more than we consume.

In this the business sector has a crucial role to play. The strong voice of business and industry needs to be heard, highlighting the benefits and break-throughs the TPP will deliver. TPP needs business to champion the deal, fearlessly, because they're the beneficiaries and their shareholders and employees are the beneficiaries. Advocacy from the private sector will be instrumental in convincing the public and their elected representatives that this deal will have a positive impact on jobs and the economy.

Too often, I've seen it, business vacates the space. They feel as though that ugly business of policy debate is best left to the politicians. Well, that's takes progress for granted and is not how the modern world is working. It's our job – whether it's government representatives or business leaders – to counter the anti-trade narrative which threatens the TPP here in the United States. We need to continue to highlight the gains from lowering trade barriers and embracing regional integration.

**All eyes are on the United States right now.** I don't need to tell you that. But I want you to know the world is divided into three time zones: Asia, the Asian time zone, the United States and the American time zone, and the European time zone. The TPP will bridge two of those three time zones. The sooner it enters into force, the sooner we can begin to realize the benefits for our farmers and our workers, businesses and consumers. The sooner we can enjoy the benefits.

So, Ladies and Gentlemen, five months after Woodrow Wilson gave his speech to Congress about his 14 point plan for the destiny of America and the world, just five months later, as I said, Australian soldiers and United States soldiers fought together, side-by-side for the first time on the Western Front in the battle of Hamel on the Fourth of July 1918.

We are the only nation on earth to have fought side-by-side with the United States in every major battle since 1918. Sometimes great battles are not necessarily fought by soldiers. Sometimes courage from political, community and business leaders and the leaders of organized labour must be equal to the most courageous of soldiers. Implementing and promoting core values, such as freedom of trade, made America great in the first place. Countries are only great if their values, ideals and ambitions are shared willingly by others. By ratifying the TPP, the United States will ensure that it continues to have a major leadership role in the Asia-Pacific Region.

The cost of failure may well be too great to imagine.

Thank you very much.