

If the United States Doesn't Stand for Free Trade, Who Does?
Speech to the Detroit Economic Club
The Hon Joe Hockey
Australian Ambassador to the United States

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I really do want to express my appreciation to all of you and Detroit Economic Club in particular for hosting me here today.

There's real energy around the club and I think that comes in part from you and your board, all of whom have great energy. It's been an incredibly warm welcome, even though it is minus seven apparently outside. But it's an incredibly warm welcome in Hockeytown, USA.

You named the town after me and I even understand that you named the stadium after me – the Joe! Although Toronto has outperformed you - they have the Hockey Hall of Fame so I look forward to you getting on with building that.

To all of the distinguished guests, particularly my colleague Michael Wood who is here, Ambassador Ghafari – good to see you and all of you thank you so much for the warm welcome. I'm not really here to talk about hockey which might be a disappointment to some but I am a Caps fan. I've only been here for twelve months and I'm starting to love the game.

I thought I should begin by establishing my credentials. The credentials of an Australian to stand before you and speak to you about free trade.

The Battle of Hamel

The relationship between Australian and the United States took on a more formal tone way back in the horror of World War One in 1918.

In about March of 1918 the Commander of the Fourth British Army instructed our General – a Jewish General – John Monash. He said you have to take this town of Hamel from the Germans.

Australia was a very small country in those days – 5 million people – and by that stage it had already had heavy casualties in a war on the other side of the earth.

General Monash said I haven't got enough troops. Too many of them are buried in the soil in France.

So they said you can have some of these fresh faced Americans. We'll give you ten companies of American soldiers to train with you and help you with the battle. And so the Americans joined in and started training side by side with the Australian soldiers. They came to love one another, they became great buddies – in Australian terms great mates. They both shared common values. They loved freedom. They respected tradition but they were not beholden to it – so we didn't all get on too well with the British but we also fought for the values.

General Pershing heard that the American soldiers were about to go and fight under an Australian General. He said stop, we don't fight under foreign commanders.

The American soldiers started to peel off their uniforms and they said, if so we'll fight wearing an Australian uniform because we want to fight with these guys – they're our buddies.

And so General Pershing relented. He gave three companies of American soldiers to the Australian General. And the Australian General out of deference to the Americans delayed the Battle of Hamel until the 4th July 1918.

He took the town in 93 minutes and it began the term that the First World War rejected just a few months later.

We are the only country on earth that has fought side by side in every single major war, with the United States since the 4th July 1918.

And we do that because we share your values and you share our values. We call it defending your mate. We call it mateship. Mateship is about helping your friend when they are in their darkest moment, standing side by side, if necessary, sacrificing your life. And we do it today in Afghanistan. We do it today in Iraq. We have the third largest military commitment to Iraq, after the United States, more recently Italy and now Australia.

Australia was there from the very beginning - in both the Gulf Wars. We've been there throughout the conflicts and we will continue to be.

Out of those shared values, we earn the right to be honest with each other, to be genuine with each other – to call it as it is.

That's what we're doing in relation to free trade. How important it is for both of us - for our future.

Bretton Woods

Together the United States, Australia and all those who have fought and died for freedom, have earned the right to influence what a free world should look like.

In July of 1944, in the dark days of the Second World War at Bretton Woods, New Hampshire, representatives from forty-four countries met to forge a new international regime.

Obviously, the two world wars and the Great Depression had left many scars, but peacetime provided an opportunity to create a new world economic order – and that came to be known as the Bretton Woods system.

The founders of the system wanted to build a new global infrastructure based on cooperation and collaboration that would promote economic stability and growth - two of the things that had failed the world to come to cause enormous losses due to warfare. This was an enormous accomplishment in the post-war economy and saw the creation of landmark institutions such as the IMF and the World Bank.

But it would not have been possible unless the United States was prepared to lead. Of course the United States was acting in its own best interest – as you would expect. When America came out of its intense period of isolationism in 1916-17 it was Woodrow Wilson's speech to Congress on the 8th January 1918 that defined what America wanted the world to look like. And defined what America expected the world to look like if it was going to have its soldiers dying for others in war.

He laid down what the American century should look like. He laid down a 14 point plan and of particular relevance is his third point:
“III. The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.”

So there you are 1918, your President said this is what America wants from the rest of the world, removing trade barriers so that we can compete directly with all of you. American peace was going to be based on American values.

Whilst America could not get the whole world to embrace its vision during the Treaty of Versailles negotiations at the end of World War 1, the same opportunity would not be lost as a result of World War 2.

So the Bretton Woods conference built the legacy that Woodrow Wilson expected the sacrifice of American lives in war and the contribution of Americans in peace to have delivered.

Whilst Bretton Woods' participants set up finance vehicles it took a great deal of time to set up free trade vehicle.

The General Agreement on Tariffs and Trade, known as the GATT, was reached in 1947 when eight countries signed a protocol to apply the new agreement on trade between them.

Two of the eight countries were the United States and Australia.

After eight further rounds of negotiations the Uruguay Round, which concluded in 1994, established the World Trade Organization – it only took 50 years of course!

Again, the United States and Australia were there at the signing table as the authors of a new chapter in the international economic regime.

Most importantly, the rules embodied in those agreements reflect the values that our two countries continue to hold dear today.

Freedom: Freedom to have a go – to be your best, to innovate, to employ other people; the freedom not to be constrained by government and fairness so that everyone plays by the same rules no matter where they are located. And they're the same values that our soldiers fought for in the Battle of Hamel in 1918 – freedom and fairness.

From the discussions at Bretton Woods through to the formation of the GATT and the creation of the WTO, the United States played a vital leadership role.

And, of course, as time has gone on, the United States has been a major beneficiary of these arrangements.

The United States was great. The United States still is great. The United States will continue to be great. It is the largest military in the world by far. It is the largest economy in the world by a substantial margin.

The people are innovative, they are enterprising, they are courageous, they are bold and they are prepared to have a go.

And therefore you have been the beneficiary, the major beneficiary of the breakdown of barriers in the world economy.

I was just thinking a little bit earlier, off the top of my head, how I could name, here in Detroit, companies that have had a big impact on the rest of the world in creating jobs here in America as a direct result. Starting with Ford and General Motors, IBM, General Dynamics, Lockheed Martin, Boeing, McDonalds, Nike, Estee Lauder, Citibank, JP Morgan, Disney, Pfizer, Johnson and Johnson and I haven't even got to the tech companies like Amazon, Microsoft, Google, Apple and the like.

All American companies, all exporting around the world.

I'd challenge you sitting here to name five companies from China, name five company from Russia, name ten companies from Britain.

Those companies which have created jobs right here in America – here in Detroit – they have done it because they have sold their goods to the rest of the world. And if other

countries are not putting a tax on those goods – it ends up being more jobs for you in the long run. More jobs, more innovation and more enterprise.

In Australia we've learnt the lessons of the inward looking economic policies.

Throughout our economic infancy we maintained high tariffs, we imposed quotas on imports, we provided subsidies to select industries and we maintained other policies to shield our economy from overseas competition.

But it was clear that that was never going to be a pathway to prosperity.

Trade liberalisation was not only necessary, for us it was inevitable. We could never consume as a nation what we could produce. We produced four times the amount of food that we consumed. So what were we going to do? Plough it back into the ground – we wanted other countries to buy our goods, to buy our minerals and to buy the things that we manufactured.

Throughout the 1980s and 90s the Australian Government undertook a major economic transformation. We floated the dollar, we deregulated the banking system and we removed controls over capital. Restrictions on foreign investment were lifted for almost every industry from manufacturing to tourism. We reduced government subsidies to agriculture, which was very difficult.

It was not easy reform – it was damn hard. And it often required both sides of politics, left and right to come together in agreement. It was particularly hard in manufacturing, which I know that you are fully aware of here in Detroit.

Last month, the last Fords rolled off the production line when Ford Australia ceased manufacturing vehicles in Australia. I loved my Ford – my Dad had a Ford – but the time had come for Ford to manufacture cars in other countries. And they were more innovative about it and they made that decision.

General Motors Holden and Toyota will cease manufacturing at the end of 2017 in Australia.

A few years earlier the government had received a report from its independent economic advisor. It was a report into the Australia's Automotive Manufacturing Industry. It found that the policy rationale for industry-specific assistance to automotive firms was weak and the economy-wide costs of the assistance massively outweighed the benefits.

So the decisions in relation to the car industry were, in the end, made by car manufacturers themselves. They couldn't justify making a specific Australian car for Australian purposes. They tried exporting Australian cars to the world but some countries had such other significant barriers that we couldn't make it stack up, particularly with where our dollar in comparison with others.

And there was huge Australian support, Mitsubishi, then Ford, then General Motors and finally Toyota all decided it wasn't sustainable. It was really hard and continues to be hard for the Australian communities involved in manufacturing the motor vehicles. It really, really was hard for those families. And the government put in place retraining programs, we put in assistance programs and has been constantly looking at trying to get new industries, and has succeeded, in many case, in getting new industries to those towns.

But of course, as my wife always says to me, the sky is always darkest before the dawn, but when the dawn comes it's a bright shining light, and it will come.

And the rejuvenation of Detroit is coming. Everyone I've spoken to says it is building and that is a heroic achievement, particularly after what you have gone through. But you're not alone – it's happened all over the world.

In terms of jobs, manufacturing has changed. Robotics have changed manufacturing in particular. New technologies have changed them.

So for those of you that have ever stood on a production line, most people want to get off of it in one form or another, improve their skills. I don't think anyone aspires for their child to spend their whole life on a production line in a low technical capacity job. They want people to expand, to develop their skills, to build a base. And that's what we all aspire to.

Governments don't always get right – I can say that – absolutely, governments don't always get it right but you've got to have a go at trying to build a competitive environment.

In my role as Chair of the G20 Finance Ministers and Central Bank Governors in 2014, I had many discussions with my counterparts on the challenges of economic change. Robotics, as I've said and new technologies mean that the world is producing more for less. And it's not about other countries stealing jobs but sooner or later their wage is rising - as is the case now with China.

In fact I read a report last night that the company that manufactures Apple products and a range of hardware in China has just laid off 60,000 workers and replacing them with robots.

And that's just the transition. That's because of higher wages – economies become more productive as they become, overall, wealthier. The challenge is: How do you distribute that fairly? How do get it out fairly? And inevitably, that means that people will look at robotics to try and replace some of the more everyday jobs.

The consumers are forcing this change. That's the fundamental point. Consumers are driving this - they want more goods and greater choice for less cost. So they're demanding to have cheaper goods and particularly from overseas.

And the consumers which make up the majority of economic growth in the American economy, if the consumers are forcing change then governments and business has to respond. If consumers are sovereign then individual workers, companies and governments are unable to hold back the change that those consumers demand.

Prosperity Through Economic Growth

Australia hasn't has a recession for 26years. We have not had a recession for 26years. Apart from The Netherlands which has equalled that longevity, but it came to a shattering end in 2007 for The Netherlands, Australia is about to pass the record of the longest continuous period of growth in modern history of any nation on earth - of any developed nation I should say. And it has enjoyed that at a GDP rate of around 3% per year over that period.

Our prosperity has come in large part from the fact that we are an open and diverse economy. This has had a big impact on our ability to deal with massive commodity price volatility and massive currency volatility.

Of course the Global Financial Crisis had an impact on us but it was less than many other countries.

We've had better growth outcomes than other countries that have experienced severe recessions and rises in unemployment.

But we've done that by having a diverse economy. One where if one area of the economy is doing well, another one might be struggling and the reverse occurs from time to time.

Australia is the number one exporter of coal and iron. And we are expected to become the biggest exporter of liquid gas in the world by 2020. And we have the world's largest reserves of uranium, nickel, zinc, gold and iron ore.

We are arguably better known for our agriculture and aquaculture where we are amongst the fourteen largest exporters in the world. In beef, wheat, seafood, dairy, and wine we are taking advantage of the massive growth in demand from the emerging Asian middle class for better quality food.

Fifty six percent of our agricultural exports go to Asia but mining, which is one of our signature exports is just 9.3% of our economy, agriculture is just 2.3% of our economy. I say again, mining and agriculture are less than 12% of our economy and that's what we're famous for.

But the fact is 70% of our economy is services: tourism, education, health services, engineering services, financial services, aged care. In fact the health centre is the largest part of our economy – bigger than resources and much bigger than agriculture. But they've all been focussed inward. They've been focussed on supplying to the domestic market which is only 24 million, a little bigger than Florida.

So what we need to do now is to export to the world – export over the internet.

Australia has always been seen as the “Land Downunder” and it is a long way away. I took the long route the other day from Washington – it was 28 hours in the air – economy class. And to come back via LA or via Dallas it's about 22 hours - so yes we're a long way from the rest of the world.

When my father came as a refugee to Australia on the 3rd September 1948, he saw it as the furthest place away in the world from where he was coming from. And he was right.

But what's changed it all is that the world is now living in three time zones; the American time zone, the European- African time zone and the Asian time zone. And the internet has given us the capacity to be able to provide services into the Asian market on a scale that no one could ever have imaged.

My father ran a small real estate agency and over that period of time since I can remember which is in the seventies, he went from focussing on people walking past his shop window, looking in the window at a house that might be for sale to my brothers selling my apartment in Sydney to someone living in London over the internet, sight unseen. All of a sudden the market had gone from someone walking by the front door of the shop to the whole world. And their services export – this is the change we have witnessed. And as you all know, you can do it over your mobile phone as you're walking down the street in Detroit, you can do it in the middle of Shanghai, you can do it anywhere.

So what's come out of that? Well we want to break down the barriers particularly for entrance into Asia which is one of the most exciting areas of opportunity in the world today.

Free Trade opens that opportunity and let me give you an example.

Australia-United States Free Trade Agreement

Last year marked the 10th anniversary of the Australia-United States Free Trade Agreement (AUSFTA). Since coming into force, we've both benefited. For the first ten years since the agreement was signed our trade doubled between Australia and US from \$32 billion to more than \$65 billion. The US is our second biggest trading partner. China is number one.

Here in Michigan, two-way goods trade with Australia was worth almost \$1.2 billion in 2015. Australia was Michigan's 8th largest export destination that year. Exports of Made-in-Michigan goods to Australia were worth nearly \$US 900 million. Out of Michigan you sent \$US 900 million of goods, covering cars, auto parts, medical equipment and chemicals.

We sent \$300 million goods to you. Your \$900 million – you export we send you \$300 million, so obviously you win out of this relationship. Even I can work that one out. Two-way investment has more than doubled since the free trade agreement came into play. The US is the biggest investor in Australia with more than \$1.3 trillion invested. So despite the emergence of China and obviously the long standing relationship with Japan, others, Australia-US two-way investment exceeds that of our next four largest partners combined.

Last year, for the first time, China became the biggest investor in Australia on a yearly basis.

According to research by the East-West Centre more than 300,000 US jobs here in the United States are supported by export advantage to Australia. 300,000 jobs - 158,000 jobs directly, 150,000 indirectly. And the trade, as I said is around 3 to 1 particularly here in Michigan.

They're big numbers - you enjoy a big trade surplus under a free trade agreement with Australia.

So the question is why am I standing here saying this is great – it's great for Australia? I am standing here because we all benefit in one form or another by breaking down the barriers, by getting in to new markets.

And the alarming thing is that in September this year the World Trade Organization cuts its trade growth estimate to 1.7 per cent this year, down from the forecast of 2.8 percent. So world trade is not growing at the rate the people expected – that the slowest pace of trade growth since 2009.

That's bad for jobs globally and it's bad for prosperity.

I want to tell you a little bit about Asia - that's where your jobs are coming. There's been a lot of misinformation about Asia and China in particular and what it means for jobs here in the United States.

The Growth of Asia

By any measure of economic growth, the Asian region is undergoing massive transformation. At the heart is the emergence of a consumer-driven middle class, currently 500 million people, growing to 3 billion people in 15 years' time – 3 billion.

The American consumer has been a massive driver of world growth for a long period of time – the middle class of America. The middle class of America is around 250 to 300 million people. 3 Billion in Asia – middle class in the next 15 years.

When you think of the massive growth today of China, India, Indonesia, Vietnam, Singapore, Malaysia, of course the existing big middle classes of Japan, Korea – currently 500 million going to 3 billion in 15 years' time.

Modern China in particular is a remarkable story.

It is a \$10 trillion dollar economy, with 6 to 7 percent annual growth. Most economies larger than \$4 trillion dollars only grow at around 2 to 3 percent, China is growing at 6 to 7 percent and it's expected to continue to do so.

Nothing illustrates it better than the fact that, for the last three years, on average, more than 40,000 new businesses are set up each day in China. I say it again 40,000 new businesses a day in China.

You guys compete with them, I'm competing with them, my children are going to compete with them as are you and your children. So the question is how do we do it? Well, never underestimate the capacity. The biggest public listing, in the history of humanity, on the New York Stock Exchange was a company called Alibaba – listed for \$208 billion dollars on the New York Stock Exchange. Its mission statement is to facilitate the growth of small and medium sized businesses out of China.

As you see the emergence of this Chinese middle class what do they want? They want better health care, better education for their children – don't forget for a long time they've only been allowed to have one child. Every child is precious, let me emphasize that – I've got three, but every child is precious. Because of the single child policy, China has two things that are particularly focussed on. Number one that child gets everything they can possible have – there's ferocious competition in education – ferocious competition. But because of the one child policy China has the biggest demographic bubble in the history of humanity – aging population. That child somehow has to pay, for not only themselves and their opportunities, they've got to pay for their parents aged care and health system. They can see the challenges coming down the pipeline.

What's America brilliant at? Innovation, particularly in health, pharmaceuticals, aged cared, health research. Do you want to get into that market? Australia got into that market through a free trade agreement with China.

And that's part of what the Trans Pacific Partnership was about – creating a platform that allowed the United States, not only to immediately partner with countries like Vietnam, Japan, Australia, of course Canada, Mexico, Peru but to use that as a platform to launch into Indonesia, to launch into other countries in the region, particularly China and potentially at the end of the day – India as well.

How do you benefit from that change in China?

2011 the New York Times reported that the last Chinese emperor, Pu Yi, was the proud owner of two Buicks, as was Dr Sun Yat-Sen, the first President of China. A black Buick driven by onetime premier Zhou Enlai is still displayed in a museum in Shanghai. Fast-forward to 2014.

Buick reported two consecutive years of record sales for the most Buicks sold in a single year in the history of sales to the United States, Canada, Mexico and China. China accounted for around 78 per cent of Buick sales, compared to just 20 per cent in the United States. So why would you want impose taxes on the Buicks? Why would you want to make harder? Why would you want to do that?

Doesn't that cost America jobs – doesn't that mean less money coming out of the United States. Who's going to take advantage of that? Well maybe Toyota, maybe European companies because they might not have the same barriers to get into China. Simple as that.

Today, Buick is now the fifth-largest passenger vehicle brand in China and is outselling many North American competitors.

I come back to what I said a little bit earlier – name ten brands out of China, name five major companies out of China. You see where I'm heading? You've got brand name, you've got integrity of product. You've got a whole range of advantages which give you the chance to get more money out of these emerging economies than they can get for their own people.

And Asia's appetite for products and services will continue to grow massively. It's too big an opportunity to pass.

And you know what's changed? It's called global and regional value chains. In 1990, 20 per cent of all global goods and services were intermediate goods. That is, they passed through one country to go to another country. So you get component parts coming from different countries into one place. 20 per cent of all goods and services travelled through another country to get to the end product – today its 75 percent, 75 percent. Meaning that you might export to Australia but it's 75 percent likelihood that that will go on to another country, maybe even another country again before it ends up in the final good for the consumer. So when one country puts a tax on and another country puts another tax on and another country puts another tax what starts to restrict it – what happens? The goods become prohibitively expensive. Consumers won't buy them and then the net result is that you lose out.

So America's prosperity has been built on free an open market and participation of global economies.

Growing our economy in Australia requires us to sell good overseas.

Growing your economy, even though you have a big domestic market, if you want to be as prosperous as you have been in the past, you've got to sell good overseas.

Imposing a tax on their goods, coming into the US simply means they impose tax on your goods. And these days there are alternatives – alternative places to get the goods. So it was the United States that was championing free trade 70 years ago, that helped to create an economic system that helped to make America the most prosperous on earth – make it the richest nation on earth.

Those guidelines in Article 3 which Woodrow Wilson talked about in 1918 are still as important today as they were back then.

Ladies and gentleman, US leadership has created the conditions that facilitate engagement in global commerce. These conditions – these trading arrangements – are in the collective interests of our people.

We recognise it's not without pain, it is - we truly do. We've experienced it ourselves in Australia. We're mindful of what you've gone through here.

But the benefit of the Trans-Pacific Partnership Agreement – the benefit of a multi-lateral agreement such as that – is it lifts the tides so all countries have to comply.

If some countries don't have the same standard as you – you will lose out. If some countries impose taxes on goods and you don't – fair enough you might lose out.

But I say to you the benefit to America of free trade, the great benefit to America of setting the principles and requiring the rest of the world to come to those standards has been that you have been able to become prosperous. You've protected your intellectual property, you've been able to deliver prosperity and jobs to your people.

So speaking as one mate to another I can say emphatically that free trade is in your best interests.

We look forward to the opportunity to provide perspectives from the other side of the world to a new Administration that has a look at trade and policy.

We don't believe that America in its heart has changed its view in relation to free trade but we recognize that there is a certain level of introspection going on.

I am happy to be an advocate for free trade which has helped to make both Australia and the United State prosperous.

Thank you very much.