

# Global Business Dialogue Conference: Keynote address — “Trade in the Pacific: A View from Australia.”

St Regis Hotel, Washington.

Remarks of

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at

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*Editor’s note: The following transcript was prepared by the staff of the Global Business Dialogue (GBD) from an audio recording of Ambassador Hockey’s presentation. Any errors are the responsibility of GBD. The Ambassador was introduced by Yuri Unno of Toyota. R. K. (“Judge”) Morris is the president of the Global Business Dialogue.*

Thank you so much, Yuri. To you, Judge Morris, Ladies and Gentlemen, what an enormous pleasure to be here. And thank you for your advocacy of core principles – core principles being something that Woodrow Wilson, as President, addressed when he rose to his feet on the 8th of January 1918. At that time, 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 largest of them all, the British Empire, to the most, perhaps, fearsome or threatening of all, the Soviet Union. All the while, with some variations, Woodrow Wilson’s 14 point plan has endured – most relevant to today, Item 2, absolute freedom of navigation upon the seas. A timely reminder in the face of what’s happening in the Asia Pacific Region.

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 regulatory or taxation barriers, 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 21st Century as they were at the beginning of the 20th Century.

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

The Asia-Pacific currently provides two-thirds of the world's economic output, and even more so as part of growth. 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. We haven't had a recession for 25 years. If that continues this year, it will be the longest continuous period of economic growth of any developed nation in history. It was not an accident.

Our prosperity has come in large part from the fact that we are a trading nation. And while we are often thought of in terms of our resources exports, our services exports grew by almost 10 percent in 2014-15. In fact resources and mining represent just 9 percent of our economy. Agriculture around 4-5 percent of our economy. Services are more than 70 percent of the Australian economy. And that diversification has had a big impact on our ability to deal with commodity price volatility and demand volatility and various other challenges.

In fact, during the Asian financial crisis, when seven out of our top ten trading partners were in recession or depression, Australia had the fastest growing economy in the developed world. And we do that because of the diversity of our economy and the openness of our economy. The principle that free and open trade stimulates economic growth and creates jobs has underpinned our great success story for the last three decades. And it has been covered across various different governments of all political persuasions. It is also reflected in the bipartisan approach to our domestic 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. We are always looking for higher standards, and better quality and improved productivity. As a nation, like most other nations, we have no choice but to be engaged 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's 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. Most economies, in fact almost all economies larger than \$4 trillion dollars of GDP, have growth of only around 2 to 3 percent. So China growing at 6 percent on conservative estimates is a remarkable story. And it is based on the openness, increased openness, of modern China. I don't know if anything illustrates it

better 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. Every day. And as I mentioned, in my previous role, to members of the Politburo, 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, and its mission statement is to facilitate the growth of small and medium sized enterprises out of China.

So 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.

In the past eighteen months, we've seen as a nation, Australia's bilateral agreement process go into hyper-drive. We have signed over the last two years new trade agreements with Korea, Japan, and China. Previously, they were unimaginable. They are our first, second, and fourth largest trading partners.

Now in the wake of, effectively, the collapse of Doha and Uruguay, countries have turned to bilateral or trilateral agreements. We kept having faith that Doha would be revived. Our faith was misplaced. So we went down the bilateral route. The net result is we have got great deals for Australian exporters, great deals for Australian workers, out of those trade agreements.

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 percent of our economy is services, but it's only around 20 percent of our exports. So we are trying to liberalize the regulatory environment for those services exports.

Since the entry into force of the Japan-Australia Economic Partnership Agreement, we've seen a quite dramatic increase in exports, particularly in agriculture. And these results bear testament to the remarkable opportunities the growth in the middle class in Asia presents. It's that growing demand from that middle class for goods and services that has made a very real difference in the Asian region.

And through our trade agreements, we are able to capitalize on that. For example, our trade agreement with China means that health service providers can, for the first time, in a relatively unregulated manner, access the massive growth in the Chinese market associated with the huge demographic bubble of an aging population and a young community that is looking for the very best quality healthcare. We also see massive growth as a result of the emerging middle class in other countries, such as Malaysia and Vietnam.

And reducing tariff 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, the

architecture of trade. Having the right rules in the region is critical. Having enforceable rules in the region is critical, because ultimately you need to have the capacity to seek redress if you are treated poorly 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. Hugely important they are, and the TPP is no more important than that. It is a fundamental opener of doors for trade in the Asia Pacific region. It is 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. The ITC report released on Wednesday confirms this.

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

Gear boxes for cars made in Michigan will see a 15 percent tariff in Vietnam eliminated over an eleven year period. Glassware made in Pennsylvania will benefit from the elimination of a 30 percent tariff into Malaysia within six years.

And, of course, beef. 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.

I suppose, you know, rather selfishly, I should say, that doesn't help me. I'm a beef exporter from Australia into Japan. Personally, I lose out of this TPP deal. Yet I'm up here advocating for it. Why? And to the benefit of beef producers in the United States! And why am I doing so? Because the world has changed. And we all contribute – through removing barriers, be they regulatory or tax – we all contribute to improvement in the quality of life of people around the world through free trade, as Woodrow Wilson said.

But most significantly, we have seen 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.

The TPP will facilitate regional value chains in a way that no trade agreement has done to date, capitalizing on lower tariffs and regional rules of origin to create more opportunities for business to trade. Goods and services can now cross borders three,

four, or five times before ending up in a finished product. The Boeing 787 Dreamliner, assembled right here in the United States, is made of component manufactured parts from Australia, Canada, Japan, Korea, Italy, France, Sweden, and 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 percent 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's also important to recognize that the TPP has another role. 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 only a few weeks ago that 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. I say, amen.

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. So we understand how important national security is.

Sometimes it takes good mates, who are in battle together, 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 set the rules, 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 done.

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 liberalize 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?

Last month, Australia hosted the 12th 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, nor is any other American country.

Together the 16 countries negotiating RCEP represent almost half the world's population, a quarter of the world's exports, and 30 percent 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 openly driving to conclude an agreement by the end of this year. By the end of this year.

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, sent a message that regional deals could deliver ambitious, comprehensive outcomes for trade and investment in the 21st Century. So as we work towards ratifying the TPP, Australia will continue to pursue other avenues to liberalize trade in our region and beyond.

We are negotiating bilateral trade agreements with India, Indonesia, and looking ahead to an FTA 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.

And we've seen it before. In 2010, after a protracted period of negotiations, the United States was instrumental in finalizing a package of reforms to the International Monetary Fund. The reforms were endorsed by almost all 188 members of the Fund. However, they required Congressional approval. Congress delayed. They said it wasn't significant. In fact they delayed for five years. In the meantime, China proposed the Asia Infrastructure Investment Bank, the AIIB. Clearly, it was filling a void.

It now stands to play a crucial role addressing the vast infrastructure needs in Asia. No need to remind you that the United States is not a member of the Asia infrastructure bank. They'd be most welcome, but I don't know that it would even get through Congress. So this scenario could be played out again. The United States could lose its opportunity to show the leadership of the Asia region proposed through the TPP.

Today marks four months since I arrived in Washington as Australia's Ambassador to the United States. Advocating in support of the TPP, both here and further afield, has been and 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.

I understand that trade votes are tough. I know. We had some really 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. And many countries, such as Japan and Australia have presented the TPP as a final deal to their parliaments. I want to say 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. There is very little sympathy.

And that's why I want to emphasize and why I am sure many other countries want to emphasize the agreement is done. There is no re-opening of an agreement, because it means that we have to go back to our parliaments as well. We have to deal with our domestic politics as well. It is a no-go zone.

Some countries, like Malaysia, have already approved the trade agreement. So how would a government be placed to say, Parliament, please approve our agreement. They have approved the agreement. Ah, but look, we want to go back and renegotiate because some other country or some other parliament is unhappy. It's not happening. What's more – and I want to emphasize this point – what's more, 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, 1901, were basically free-trade versus protectionist parties, rather than your equivalent of Republicans versus Democrats. That was the basis upon which they were effectively formed. 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 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 labor 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.