

July 7, 2016

Australia, the US, and the Trans-Pacific Partnership by the
Hon Joe Hockey

The Honorable Joe Hockey is the Australian ambassador to the United States.

Ninety-eight years ago, on Jan. 8, 1918, President Woodrow Wilson declared one of the core principles of US 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. Those principles are as relevant today as they were at the beginning of the 20th century. They form the basis of the Trans-Pacific Partnership (TPP); implementing this gold standard trade agreement is in Australia's, America's, and Asia's economic and strategic interest.

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.

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. 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. 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.

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.

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 the sector accounts for only around 20 percent 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 capitalize on many opportunities. For example, our trade agreement with China means that health service providers get a competitive boost from the Chinese market which is characterized by an aging population and a young community looking for the very best quality healthcare.

The Australia-US Free Trade Agreement, now in its 11th year, is testament to the opportunities of trade agreements. 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 Center, 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.

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 is the most comprehensive, ambitious, and wealth-creating trade agreement in over 20 years. The opportunities the agreement presents are overwhelmingly in the collective interest.

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 from Japan as a result of the TPP. Within 11 years, tariffs would be eliminated on more than 65 percent 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 to 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 percent 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. With more than 95 percent of the world consumers outside the United States, the TPP will help drive the export of more ‘made in America’ goods.

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. 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. Goods and services can now cross borders three, four, or five times before ending up in a finished product.

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.

But 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.

The TPP is at a critical juncture. Failure to approve it 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 set the rules for the fastest growing economic and military region in the world. Time is not on our side, the world is moving ahead.

Two weeks ago New Zealand hosted the 13th 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. 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 other emerging regional powers continue to grow.

Asia will not wait for opportunities 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. Asia will create those opportunities if others don’t.

I understand that trade votes are tough. And yes, the TPP can be controversial. There is very little sympathy in other countries for some of the challenges faced by the United States in this environment. The deal is done. There will be no re-opening of the Agreement. It is not an option.

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.

This article summarizes a speech made by Ambassador Joe Hockey at Pacific Forum CSIS’ Honolulu International Forum meeting on June 30, 2016. A full version of the speech can be found on the Australian Embassy website [here](#).

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