

Speech

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I'd like to begin by asking a simple question, 'why do countries of the world tend to enter into trade negotiations?' The answer is to reduce barriers to trade.

So the next question is, 'how do the barriers get there in the first place?' We seem to be spending lots of time undoing damage that has been done over the last century or more, as countries have felt that the best way to improve their domestic prosperity was to put up walls – that barriers to trade make them wealthier countries.

Adam Smith in 1776 had a lot to say about this and saw no merit in putting up trade barriers and other restraints on trade. Yet the history of the world has been one of creating protectionism and then creating complex negotiating forums in which agreements will be reached to reduce them. And the point Mari [Pangestu] made in her presentation is that it's quite evident in the discussions on the Doha Round of negotiations that governments of countries – including, of course, trade ministers – talk very anxiously about the price that their countries are expected to pay in terms of achieving an outcome for the Doha Round. By the 'price' they mean the cost to them of reducing protection, as if still in the modern world there is a prevalent view that there is a level of protection that is good, and it's very hard for countries to reduce it, and they will only do it if other countries also do the same thing.

This hasn't been Australia's approach, by the way. We did have about 80 years of protectionism in Australia, from the Federation in 1901 through to the early 1980s.

It was only then the Hawke government, which I had the privilege to advise, formed the view that it didn't make sense to have high trade barriers, and in fact the very industries that were being protected were crumbling with poor productivity and high costs. So that government began the process to reduce barriers without requiring other countries to do so. That government did not have a view that there was an optimal, high level of protection from which it would only grudgingly depart if the other countries did the same thing. And yet here we are at the end of the first decade of the 21st century, where the

Doha Round is marred in these arguments about how countries don't really want to reduce their protection and might only consider doing so if other countries agree. I think while that philosophy prevails, it's going to be quite difficult to get an outcome for the Doha Round which is truly liberalizing.

Nevertheless, the people you see around this table – Tim Grosser, Mari Pangestu and Fred Bergsten – are optimists and we've got the energy and the drive if we can just convince enough countries in the world that this is the right way to go. I am not saying that those at the table represent the totality of like-minded countries, because despite our energy and drive, if we did, we will be outnumbered 153 to 3, so we will press on. But it's interesting in this context, therefore, that a lot of sub-architecture has been created.

On the multilaterals, Australia is a multilateral country in the sense of our strong preference to achieve liberalisation through the multilateral trade negotiations. We do this because the defining feature of the WTO rules is non-discrimination – we don't do a deal with some countries at the expense of retaining trade barriers with other countries. So that's why the WTO offers such benefits.

It is ironic that the head of the National Farmers Federation, the peak farming organisation in Australia, said a few years ago 'you can do these bilaterals but if you do the Doha Round or multilateral negotiations, you get 144 free trade agreements all in one'. Now it would be 153. But not at the expense of each other; it will be everyone in, and everyone reducing their trade barriers.

Nevertheless, this other architecture has evolved for rather good reasons, and an important piece of that architecture is the Asia Pacific Economic Cooperation Forum, or APEC, which in fact was founded by Australia and Korea back in 1990 as a result of Prime Minister Bob Hawke visiting Korea at that time, and it soon became a forum not just for trade ministers but for leaders.

Now the fascinating feature about APEC is that it's not a sub-grouping that operates on a discriminatory basis, nor is it a sub-grouping that is even a trade negotiating forum. It's a sub-grouping in the world of what we would like to consider to be like-minded countries who unilaterally are reducing their trade barriers, confident in the knowledge that they are not alone. But not conditional upon other countries doing it – but confident that their like-mindedness means other countries are going down the same path. So politically for them it's easier to manage to say 'well other countries are doing it too'.

You know, if I ask people in Australia – in the streets, the everyday person – what would they think tariffs were in terms of our Asian trading partners. I think they would say 50, 60, 70 per cent. But it's nothing like that. In fact, through this approach of unilateral reductions in protection amongst the APEC members, the average tariff since the mid-90s has fallen from 12 per cent down to 7 per cent. We think that is a pretty good achievement. We think that it should go further, but it's a pretty good achievement particularly because it has not involved negotiations.

Then there is another piece of architecture below that which I should mention – which is the Australia, New Zealand, ASEAN free trade agreement, AANZFTA, which is a high quality agreement. I won't go into detail about that but it is a genuinely liberalising agreement.

And then of course the Trans Pacific Partnership (TPP) about which I've been asked to say about few words. The TPP now comprises nine countries of Asia-Pacific, and I am very happy to pay compliments to my colleague from New Zealand, Tim Grosser. It started with four countries and then the US took an interest in it. But New Zealand was active in the creation of the grouping of four. Tim will tell you later what it was called because I don't know, but it has now become the Trans Pacific Partnership of nine countries.

Our vision, I think it's fair to say for the TPP, is that one day it could become a free trade area of Asia-Pacific. Now that day could be a long way off, but the value of the TPP is that there is a like-mindedness, there is a desire to reduce not only tariffs – the 20th century trade restraints – but behind the border restrictions on trade through government regulations as well. So those nine countries are heavily involved in negotiations. And in fact, listening to some of our comrades from Peru for example, they are pretty exhausted – they have taken 30 or 40 people to each of the negotiation sessions, so intense is the process.

We are very hopeful that, by the time of the APEC meeting in Honolulu in November, we will have something substantial to report on the TPP, and I can say that the US is very keen on it. But it's not designed to be an exclusive preferential club. It's designed to achieve the sort of liberalisation that we are talking about and over time, if other countries in the Asia Pacific region, desirably members of APEC, were to approach and make a similar level of commitment to them there will be an open-mindedness to those countries joining the TPP.

And so you can see how the TPP, if we get this right, in the next months, in the next year, could provide the energy, drive, and vitality to move us towards a free trade area for Asia and the Pacific. So the optimum arrangements still remain in my view the WTO, liberalisation there. But there is a merit in the TPP as a stepping stone ultimately to a free trade area in Asia and the Pacific.

Here we are in the 21st century, Asia is a dynamic region. It is where most of trade growth is going to occur. Last decade, China grew 10% per annum. So if we continue to see that sort of growth, for other countries – Indonesia is now growing strongly – we will see a tectonic shift of economic activity to this Asia-Pacific area. And I think if the architecture, if we get it right, means we can cash-in for the poorest countries in the region, for the poorest countries in the world, and create a truly liberalizing trade regime.

I think I will leave it there and hand over to Tim Grosser, the architect of the TPP and many other things, trade-liberalising.