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### **SPEECH**

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*\*\*\* Check against delivery\*\*\**

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A lot of the debate about trade globally these days is focused on the policy shifts out of the United States.

But it is important not to be distracted from what is happening in the rest of the world. In 2018, as we have seen over the weekend with Australia's hosting of the historic special ASEAN summit, trade-liberalising economic integration between nations is driving growth in the Asia-Pacific region.

Look at the plethora of bilateral and regional free trade agreements taking shape in this part of the world, like the remarkable signing of the TPP-11 this month – the world's most significant trade and investment agreement in more than two decades.

And here in Hong Kong, Australia is deep in discussions for an ambitious high-quality agreement which demonstrates our shared commitment to openness, as befits

an economy lauded by the Heritage Foundation as the world's number one for economic freedom.

Today I'll make the case against protectionism, and in favour of open trade and investment.

Protectionism not only doesn't work, but in fact is shooting yourself in the foot.

It is wealth-destroying, and does not deliver either the prosperity or certainty its proponents claim.

Protectionism has a superficial appeal, and it's true that many countries have used protectionist policies at various stages of their development.

But protectionism lowers living standards, not the opposite.

By forcing domestic consumers to pay more for the same product, it imposes higher costs on those least able to bear them.

This goes double for those businesses that rely on imports as raw materials or components, whether in manufacturing, food production, mining or transport, to name a few.

Protectionism slows economic growth.

As Australia's Prime Minister, Malcolm Turnbull, said this month, "a trade war is a race to the bottom that makes us all poorer, leaves our citizens with less choice and fewer opportunities."

Economic growth in the late 19<sup>th</sup> Century occurred despite high trade barriers.

Studies have shown growth in that period mainly stemmed from the major population growth taking place and the accumulation of capital.

By contrast, globalisation has been an immensely successful policy, accepted by government after government and society after society around the world for good reason.

Allowing international trade and commerce to flow unimpeded allows us all to focus on what we do best.

As the Australian Institute of Public Affairs reported this month, the evidence for the success of trade is clear.

Australian prices for televisions and computing equipment have gone down 91 per cent over the past two decades.

Likewise, cars are 21 per cent cheaper – in real terms – than they were in 1997.

And a Qantas flight to Hong Kong today costs the traveller 65 per cent less than it did twenty years ago.

Thankfully, what we have built up around us over the past few decades is a thick sinew of international rules, systems and institutions that make globalisation work.

We can have a discussion about whether globalisation is working for everyone, and whether we can do a better job of explaining the complexity involved or how best to compensate or re-train those who have been displaced.

There's no doubt where the tough politics comes from.

There are examples around the world where governments failed to take the people with them.

People get scared, because when factories and industries shut, they lose their jobs.

That's not an economic concept, or an abstract argument – that's a real thing in the real world.

There is a difference between the prosperity of the economy and that of the individual.

As a global community, we have not sufficiently paid attention to that.

Responsive education systems and social safety nets are a part of that conversation – and for Australia, have been a key part of our policy response to the challenges of globalisation.

As a result, the Australian experience from opening up to the world has been one of shared prosperity – real median wages have gone up roughly 50 per cent over the past 20 years to the start of 2017. To put that in context, in the same period real median wages grew by 4.4 per cent in the United States.

But trade and investment's capacity to create wealth has been shown time and again, and nowhere is this clearer than here in Hong Kong.

Many people are critical of the World Trade Organization (WTO) these days, because of the greatly increased difficulty in recent years in coming to multilateral grand deals.

But the fact is, the extraordinary network of bilateral and regional trade agreements which now exist in our region – including those that Australia has with ASEAN, China, Japan and Korea – have delivered a more integrated and prosperous regional economy.

Rather than undermine the WTO, as some suggest, the comprehensive, high quality and genuinely liberalising FTAs which Australia has entered into are entirely consistent with the WTO rules and are practical steps towards achieving our ultimate objective of global trade liberalisation.

Other institutions make their own contributions to economic openness in a regional or global context.

APEC, the East Asia Summit, the G20 – these are all critical regional and global bodies in which we work together to find common purpose, so we can improve the environment for regional and global trade.

These economic elements of the international rules-based order are a virtue. This is not because I like rules and regulations.

Far from it – as a believer in small government, I pride myself, like others in the Government, on removing useless or redundant regulations.

But they are useful because in the global system, the alternative to rules is anarchy.

Australia, as a trade-exposed economy outside of the Top 10, has a proportionately greater stake in a functional international trading system that reduces uncertainty and allows business to make long-term investment decisions.

The global trading system is anything but redundant – it is delivering more and more global prosperity each and every day, not just to the citizens of China, or Vietnam, or Peru – but to the citizens of every developed and developing country that takes part in it.

And the WTO still has a vitally important role to play, including as a dispute resolution body for when two sides see things differently. We want to improve the WTO, not end it, and we encourage all the major powers to act consistently within the existing rules.

The fabric of globalisation is much denser today than it was twenty years ago.

Digital connections – everywhere, between almost every human on the planet, and every business, place of industry or economic zone.

The simplicity of travel – it's never been easier, it's never been more done, it's never been more widely enjoyed by a wider group of citizens and nations than it is today.

Global supply chains are ubiquitous not because they benefit one single economy, or a particular product or business model, but because of the immense prosperity-generating potential in the model of globalisation in play today.

Global supply chains are not some foreign threat – they are a vital element of domestic production, particularly in advanced manufacturing and energy.

They make a critical contribution to productivity growth, innovation and job creation.

Now, what people are calling the Fourth Industrial Revolution – the new front of physical, digital and biological technologies – is rapidly changing almost every aspect of everyday life.

And we must not allow the job losses flowing from the creative destruction accompanying the march of artificial intelligence to be blamed on free trade. That's down to automation, not globalisation.

These forces of AI and automation are accelerating and gaining in strength. Over time, they will radically reshape global supply chains. As machines replace workers, it may even mean more manufacturing shifts back inside mature end-markets simply based on cost of capital considerations.

Because when you're talking about making large capital investments that could be located anywhere in the world, investors will prefer to place their capital in stable, developed market economies with low sovereign risk and the rule of law. Put simply, owners will park expensive robots in well-lit places.

From my point of view, these forces should be embraced intelligently by policyholders, rather than resisted.

Government has a role in ensuring any initial negative impacts on some sectors from automation are outweighed by the benefits and increase in jobs and trade in new areas.

That, for example, is why the Turnbull Government is investing so much into the advanced manufacturing defence industry sector, creating thousands of jobs and giving our businesses including SMEs the opportunities to export.



Free trade is an argument Australia has been making not just this week or this month, but each and every year for the past three or four decades.

And we haven't just made the argument, we've delivered on reform at home. Australia's economic success over many years makes the case very strongly.

No similar advanced economy can claim the success we can right now.

We are in our 27<sup>th</sup> consecutive year of economic growth.

That's no statistical error, or a one-off result.

If you look at Australian living standards over the past century, there is a very clear story that emerges, and it is the story of the value and importance of openness.

At the turn of the 20<sup>th</sup> Century, newly-federated Australia was one of the best places in the world to live, at least judging by GDP per capita.

The six small British colonies at the bottom of the world, the Australian States, had been built on trade.

Of course they had, because their domestic markets were so small that it would have been very difficult to create wealth without trade.

Still, in 1913, Australia ranked second in GDP per capita worldwide – just behind the Americans, and just ahead of the New Zealanders.

But the history of the 20<sup>th</sup> Century from 1901 through to the 1980s was one of long slow decline.

Wool, wheat and mining exports were our mainstays in the early days, to which we added local manufacturing industries like automotives, textiles and heavy machinery.

Over the decades, successive governments sought to shield big employment industries like manufacturing and textiles from overseas competition, to protect jobs and living standards.

That era of failed policy, though, led only to higher and higher social and economic costs, so by the late 1970s, the evolution of a highly-protected economy was a major burden to the public purse.

Perhaps worse, a distorted, highly regulated and rigid national economy was still under intense cyclical pressures, and poorly-placed to respond to external shocks, like the oil price hikes of the 1970s.

If one set of figures can encapsulate that failed policy, it's the slow decline in our GDP per capita ranking globally.

By 1928, we were 4<sup>th</sup> in the world. In 1950, we were 7<sup>th</sup>. By 1980, Australia's GDP per capita ranking had fallen to 19<sup>th</sup> in the world.

Then, from the 1980s on, there was a sea-change in Australian attitudes towards industrial policy, and it was embraced by both sides of politics.

Through a number of major policy reforms, our national economy was slowly opened up, and exposed to the international competition fast bearing down upon us.

The floating of the dollar, the slashing of tariffs, the de-regulation of the labour market, National Competition policy, the switch from direct to indirect taxation – the big reforms of the 1980s, 1990s and 2000s set the scene for much greater competition for Australian businesses.

Of course, those reforms were difficult, and they took many years to take effect.

But collectively, years of economic reform exposed us to more and more competition.

Far from killing our national economy, the removal of protectionism made it stronger, changed its shape, and gave it new momentum.

Old industries that no longer made sense, in the emerging world and region that was taking shape, did fall away.

Many people lost their jobs, or struggled to adjust to work in the new services industries that emerged during the 1980s.

For those who did lose their jobs, we had in place strong social security safety nets, industry transition programs such as for the Newcastle steelworks and the automotive sector, and a commitment to education and training to help people find new careers.

The prosperity dividend was the Australian economy became far more nimble.

It opened up to innovation, and change, and millions more jobs were created, many in the services sector and, during the mining boom, in the resources sector.

And the end result was by 2015, even after the waning of the mining boom, we were back up from 19<sup>th</sup> in the world - we were the 10<sup>th</sup> richest people in the world, measured by GDP per capita.

Australia isn't the only advertisement for open trading and investment rules, of course.

As Prime Minister Turnbull said this week, the decision by Australia and Japan to pursue a TPP-11 after the withdrawal of the United States – and that of the other members to pursue it with us – was a clear signal of the continued strength of commitment globally to reform.

We and many of our trading partners are forging ahead on other agreements as well.

Only last month I signed a Free Trade Agreement with Peru.

Hong Kong is the perfect example – long a facilitator and intermediary between China and the global economy.

China more broadly, is a great example of what happens when reform and trade liberalisation are allowed to take place.

China of the 1970s was an isolated place, very inward-looking and focused on self-sufficiency – a far cry from the China of today.

The decision to open China to the world has produced the single most extraordinary national transformation since the first industrialisation, in Britain, or perhaps since the railways transformed America.

That change has been overwhelmingly for the good – not just for the good of the Chinese people, but for the world at large.

China's bold economic reforms have lifted hundreds of millions of people out of poverty.

It's not just an economic miracle, but a humanitarian one as well.

The United States, by opening its markets to China, welcomed and facilitated China's opening up – as it had done with the earlier flowering of Japan and Korea and indeed with post-war Europe.

Simply put, access to the US market, combined with the US-built post-war institutions of Bretton Woods, the GATT and its successor the WTO has made an enormous contribution to economic growth and stability in our region and the world at large over many decades.

For our part, Australia was instrumental in China's accession to the WTO in 2001.

China made major adjustments to be part of a rules-based trading system which benefits us all.

Today, we continue to welcome China's active membership of the WTO.

Its ratification of the Trade Facilitation Agreement is but one example.

The fact is, China has made strides in opening its economy since its WTO accession.

The China-Australia Free Trade Agreement – the highest quality trade agreement China has ever concluded – has helped open the door wider.

Australia enjoys better access into China than any other comparable economy. China and Australia have implemented the trade agreement collaboratively and in good faith.

I have a good relationship and work closely with my Chinese counterpart Commerce Minister Zhong and his colleagues such as Chair of the NDRC He Lifeng and SASAC Chair Xiao Yaqing.

I am committed to working in good faith with them to resolve the trade and investment issues that inevitably arise from time to time in any mature economic relationship.

The foundation of Australia and China's economic relationship has been resources and agriculture, built on Australia's reputation as the region's ultra-reliable supplier of the energy and resources their businesses need to grow, and the high-quality, clean green food China's citizens want to enjoy.

This trade continues to flourish in an environment more open than in many other major importing countries, and now encompasses our gold-standard services industries.

The result is an all-time high of \$175 billion in two-way trade in 2016-17, a record 185,000 bright Chinese students receiving quality Australian education and almost 2 million two-way tourists.

President Xi's investment in infrastructure, including through China's Belt and Road Initiative, offers the potential of further expansion of markets for Australian companies' goods and services, by integrating more countries into the global market economy.

We look to China to continue its process of economic development, and welcome China taking steps for its commitments to trade liberalisation being reflected through ongoing reforms and acting consistently with the international rules-based order, for the benefit of their people and the world.

Premier Li Keqiang's recent announcement that China will open aspects of education, health and financial services is a welcome development.

It will underpin the acceleration of our services trade.

Education and tourism has already taken off and Australia is well placed to cater for unmet middle class demand, as evidenced by the success of the China-Australia Year of Tourism last year, an initiative of President Xi and Prime Minister Turnbull.

Looking ahead, there is a lot more we can do with China.

Australia will join one of the most important events for China in 2018 – the China International Import Expo.

This event will focus the world's attention on China's opening-up agenda.



It's a testament to our close economic relationship that Australia was the first country to be invited.

I was honoured to receive the invitation personally and, of course, accept it.

I will lead a delegation of senior Australian business people to the China International Import Expo – highlighting again the closeness of the government and business links between Australia and China.

Australia is also working proactively with China to strengthen protection of intellectual property rights for Australian businesses.

In December 2016 we appointed the first ever IP Counsellor at the Australian Embassy in Beijing to enhance our cooperation at a government-to-government level.

This has already led to tangible benefits in improved enforcement and increased business awareness about IP issues.

Major Chinese ecommerce companies like Alibaba and JD.com are now cooperating on brand protection with Australian brand owners on the platforms that provide an increasingly important path to market for our quality export products.

Beyond China, ahead of us, we have a massive trade negotiating agenda.

In our Foreign Policy White Paper we have committed to extending our network of FTAs to cover even more partners.

Our vision is for a single, inclusive free trade zone of the Indo-Pacific; a region integrated under a common set of rules and norms that connect us all and which will drive growth and job creation.

Ladies and gentlemen, in 2018, it might seem that the world has turned in on itself, a little.

It might seem like the forces of global protectionism have the upper hand.

But if you hold up the cloak of protectionism against the shining achievements of the global trading system, it proves threadbare.

Protectionism in 2018 is as much an economic dead-end as it was in the 1930s.

They say those who forget the mistakes of the past are destined to repeat them. I'm determined that's not going to happen. Protectionism does have to be argued against, and successfully, which is why I have made these remarks today.

But I believe, in the end, protectionism cannot win.

The key to continued success, in the meantime, is, first and foremost, that we do not retaliate. This is hard. But the fact is: a trade war serves no one.

As Singapore's Prime Minister Lee said at the ASEAN summit, all countries, big or small, will suffer if trade wars break out.

And as the Foreign Policy White Paper made clear, the international rules-based order works in all of our interests, big countries and small.

It is vital that strategic competition does not create rival economic blocs.

We encourage all the major powers to work consistently with WTO rules.

Secondly, we must refresh the WTO agenda.

We need to do some hard work on digital trade, on investment, and on behind the border issues, if we are to continue to drive change. And we need to find a way to break the long-standing logjam on liberalising global agricultural trade.

Third, we should continue an active FTA agenda.

Fourth, we all need to keep an eye on questions of equity, and the distribution of gains.

As people see the benefits these deals bring, they will be even more supportive of them in the future.

Governments at large have a responsibility to do what they can to assist those negatively affected by reform to make transitions within an evolving economy – but protectionism is a fatal mistake to make.

And lastly, we need to re-make the case for openness, over and over, time and time again.

We should enlist support wherever we can, but particularly among young people.

They have grown up in a globalised world – they know no other way to be.

They are instinctive globalists, and if armed with the facts of the economic and humanitarian case for free trade, will be our most powerful allies in the battle of ideas now playing out.

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