

As Prepared for Delivery

**A Pacific Partnership:  
Australia and America In a Globalizing World**

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It is a pleasure to be here with many friends, especially those from Australia who have flown “up and above” to be with us.

I was in Sydney in 1992 with President Bush 41, as we now call him, when he discussed with Phil Scanlan and others the need to look beyond the shared experiences of the World War II generation, to build new networks of ties among other generations of Australians and Americans. Through the hard work and dedication of Phil and many others here tonight, that idea took shape over the next decade. Americans have greatly benefited from the insights and friendships of the Australians who have joined us.

This evening I will talk about the U.S.-Australian relationship: our histories, our security, and our economic interests. And to do that, I want to start with a brief story about a day in the life of a typical American, 12,000 miles from the shores of Australia.

Jeff is an all-American guy. He lives in New Jersey, but commutes into Manhattan each day to work for the Lend Lease real estate investment company. On weekends, he enjoys relaxing and working around the house.

On this particular Saturday, Jeff gets up and reads his favorite paper, the New York Post, while eating an omelet made with the Surprise Bay cheddar that was on special at his local grocery store. Afterwards, he turns on the Fox News Channel for a quick check of the weather and goes to the Looksmart Internet search engine to locate plans for an outdoor bar-b-que he wants to build. He prints the directions and heads outside to make use of a newly-delivered load of Boral bricks. When he stops for a break, he grabs a Coke.

At the end of a satisfying day’s work, Jeff drives to the Westfield Shoppingtown Garden State Plaza in his Ford Ranger to see *A Beautiful Mind* at the cinema. After the movie, he goes into the city to meet some friends for dinner at Eight Mile Creek restaurant, where he orders a nice glass of Lindemans Chardonnay and a leg of lamb. He later returns home and falls asleep while reading the latest sci-fi thriller by Stephen Dedman.

As you might have guessed, Jeff's hypothetical all-American day was touched by an Australian product or investment at just about every turn. Even his classic Coca-Cola and treasured Ford were produced by companies headed by Australians.

The fact that such a day is even possible, much less unremarkable, for a person living on the east coast of the United States is an amazing testament to the reality of globalization and the close economic and cultural ties between our two countries. Certainly such regular contact between Australia and America would have been unthinkable one hundred and one years ago, when Australia became a nation.

And yet, the Australia of a century ago had already been fundamentally transformed by many of the same globalizing forces so conspicuous in the news today.

### Globalization Then and Now

The *SS Great Britain* was the world's first ocean going, iron-hulled, propeller-driven steamship. It was launched in 1843—a date by which the new technologies of the industrial revolution were starting to close the once vast distances between Australia and the rest of the world.

This year marks the 150th anniversary of the *Great Britain's* maiden voyage to Australia. First lured there by the gold rush, the ship was a frequent sight in Australian waters, safely carrying more than 15,000 immigrants over 24 years. The *SS Great Britain* now serves lighter duty as a museum in Bristol; in its day, however, the ship helped to change the world.

It is now common for people to talk about an unprecedented age of globalization. Extraordinary it is, but unprecedented it is not. For the world of 19th Century steamers like the *Great Britain* was characterized by dramatic changes in communications, transportation, and interaction among peoples—much like the world of today.

In the 50 years before Australia became a nation, the great ocean liners cut freight rates for most commodities by an astonishing 95 percent. On land, railroads were linking Australian cities that had previously had more contact with England than with each other and providing iron tracks that bound together our continental nation.

In 1901, the Wright brothers were building the pioneering *Flyer* that they would launch in just two years. Henry Ford founded an automobile company that year, and within a decade, his cars would open new vistas to tens of thousands of people, as well as offer new perspectives on methods of production.

The young Australian nation enjoyed a novel oceanic telegraph link with America. Experiments with a wireless machine offered the promise of long distance communication through waves of sound.

At the same time, social movements and new ideas were changing lives and transforming societies. In 1896, the modern Olympics were born, bringing together athletes from around the world, including a young Australian runner named Edwin Flack who edged out American Arthur Blake by one second to win the 1500-meter gold.

The emancipation of women emerged as one of the great causes of the era, with the activism of the Pankhurst sisters in England, with Mary Lee and the success of the suffrage movement in South Australia in 1894, and with women gaining the right to vote in the United States in 1919.

That powerful combination of new technologies and new ideas—combined with quickening economic openness—led to a world of seemingly infinite possibilities. John Maynard Keynes described it so:

The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages. . . . Most important of all, he regarded this state of affairs as normal, certain, and permanent, except in the direction of further improvement.

Australians and Americans a century ago shared Keynes's optimistic vision. Many read a book by Norman Angell titled The Great Illusion. It was a worldwide best seller, and Angell later won the Nobel Prize for Peace. Angell maintained that the new complex financial and commercial interdependence made war useless and unlikely in the modern era.

In 1913, David Starr Jordan, the influential president of the newly endowed Stanford University, reflected the same optimism: He predicted that “the Great War of Europe, ever threatening...will never come.”

Yet in June 1914, a terrorist's bullet in Sarajevo pushed Europe over the edge into a new dark age.

The hopeful prospects of 1901 were overwhelmed by the dangerous ideas of the early 20th Century: imperialism, fascism, authoritarianism, communism, corporatism, isolationism, and protectionism.

The First World War, the Depression, and then the Second World War, taught cruel lessons to those who believed that economic integration and technological innovation alone would insure peace and prosperity.

We learned anew that ideas can lead to cruelties and tragedies: wars, depression, mass starvation, and even genocide.

In effect, it took the second half of the 20th Century to recover the degree of economic openness the world had lost in the first half of that century. Trade as a percentage of world economic production was roughly as high one hundred years ago as it is today. Net capital flows as a percentage of GDP among developed nations were higher at the beginning of the 20th Century than they were at the century's end.

Now we are at the start of a new century. Again, it is an age of great inventions—in communications, computing, biotechnology, miniaturization. Forty years ago today, Telstar, the first private communications satellite, was launched. Less than ten years ago, undersea fiber optic cable was laid between Australia and America. In the span of a single century, we went from bandwidth connectivity sufficient to carry only dots and dashes to continual massive streams of voice and data flowing beneath the seas and across the skies.

Again, it is an age of globalization with extraordinary possibilities, yet also the anxieties prompted by huge transformations.

As the world has changed, so has Australia's relationship with it. In the earlier age of globalization, the country's commercial and cultural ties were overwhelmingly with Britain.

Today, Australia has a much wider web of relationships. Australians have recognized their interest in weaving ties globally, throughout the Asia-Pacific region, and with individual countries of special importance. In turn, Australians have reinvented their country so that it can compete and contribute within each of these networks, while assisting the interconnection among them.

#### A Pacific Partnership: Past, Present, and Future

The United States has been one of the chief beneficiaries of Australia's confident global orientation.

Geoffrey Blainey pointed out in his seminal work on Australian history, The Tyranny of Distance, that Australia was a nation founded in large part on the hopes of profitable trade.

Today, that trade benefits both our countries. The U.S. market receives 11 percent of Australia's exports and is the source of more than 20 percent of Australia's imports. And business is booming—in recent years, Australia's exports to the United States have grown faster than the sales to any of Australia's other major trading partners. U.S. investors supply more capital to Australia than from any other country, and a full 50 percent of Australia's foreign investment goes to the United States.

Yet ever since Captain James Cook first landed in Botany Bay, the promise of Australian trade has been closely tied to matters of security. Its harbors were eyed as bases to

protect the critical shipping routes to China and India. Old Ft. Denison, still standing watch in Sydney Harbor, was built to protect Australia from the Russian threat—in the Crimean War.

As the first modern age of globalization collapsed into world war, the New World was called upon to save the Old. Australians and Americans fought together for the first time 94 years ago—in Hamel, France on July 4.

Yet it took the disaster at Pearl Harbor and the rapid fall of Malaya and Singapore to shock Americans and Australians into recognizing the common dangers they faced in home waters. Australians and Americans fought back—in the Coral Sea, at Guadalcanal, and across New Guinea.

And now the events of September 11 have jolted our generation of Americans and Australians into recognition of a new common threat.

As Prime Minister Howard stated eloquently to the U.S. Congress last month:

In his inaugural address, George Washington spoke of the destiny of the American people to preserve the sacred fire of liberty. That promise has been kept for more than two centuries, but never more so than since the appalling events of September of last year. Through these times, Australians have shared your shock and anger, and have been partners in your resolve. We have taken our place beside you in the fight against terrorism because what happened last year in the United States was as much an attack upon our nation and the values that we hold dear as it was upon yours.

Some want to treat the shock of September 11 as one tragic moment in time. But that would be self-deceiving and dangerous. Our war against these terrorists is not, as some have suggested, an overreaction to a loss of innocence.

Just yesterday, Reuters reported that an al Qaeda spokesman told an Algerian newspaper that “Our suicide militants are ready and impatient to carry out attacks against U.S. and Jewish targets inside America and abroad.” As President Bush explained, the struggle against these groups—and those who support or emulate them—will continue far beyond the removal of any single leader or faction.

These enemies hate the modern world, with its advances in openness, the exchange of ideas, expanding tolerance, and rights for women. They die to destroy instead of living to create. It is in our mutual interest to deny these terrorists the resources they need and the places they hide. We need intelligence about their plans. We need to expose their perversion of the faith they claim to hold. And we need to break the potential link between terrorists and weapons of mass destruction.

As part of this extended campaign, we must advance the values that distinguish us from our adversary: openness; peaceful exchange; democracy; the rule of law; and

compassion. Economic strength is the foundation of our hard and soft power. Earlier enemies learned that America is the arsenal of democracy; today's enemies will learn that our democracies are engines for freedom, opportunity, and development.

I do not believe that poverty breeds terrorism. To do so would be to insult the many poor people who struggle peacefully to overcome terrible hardships. Furthermore, the backgrounds of most terrorists are privileged or middle class.

Yet broken societies provide havens in which mass murderers can thrive covertly. Therefore, part of our campaign must be to offer hope, opportunity, and support for individuals and societies to respect the rule of law, to build, to improve the lives of their children.

Australian and American cooperation to open markets for trade and development serves these larger interests. For trade is about more than economic efficiency. It promotes the values at the heart of this protracted struggle.

Last year, the United States and Australia worked closely together to launch the new global trade negotiations at Doha, reversing the failure of Seattle. I did my best to work through the challenges of 142 economies until my colleague and friend, Mark Vaile, could join us after Australia's elections. Once he arrived, the momentum picked up, triggering an all-night session that clinched the deal!

We also took a seminal step for the Asia-Pacific. After a special U.S.-China negotiating effort on the margins of the Shanghai APEC meeting last June, we finally broke through the remaining problems so that China and a democratic Taiwan could accede to the WTO, completing a 15-year journey.

Both Australia and the United States have recognized the critical importance of securing Indonesia's fragile democracy; on my visit there in April, I explained our plans to offer Indonesia's information technology sector the benefits of the free trade agreement that the United States expects to complete with Singapore this year. And the United States passed a bilateral trade agreement with Viet Nam that will help integrate our former foe into the rules-based international trading system.

### A Free Trade Future?

Australia and America should complement their partnership on global and Asia-Pacific trade issues with deeper economic ties between our two countries.

As some of you may know, I had a hand in President Bush 41's suggestion in 1992 that the United States and Australia consider forging a free trade agreement. That idea created a stir among some Australian politicians and their top staff, who preferred to link Australia—at the start of the 1990s—to a Japan that they believed would be the dynamic leader of the world economy. They rejected our logic that Australia's closer economic

links to the United States would strengthen its ability to compete globally and with its Asian partners.

So the world turns....

Now bi-partisan leaders in both countries believe that we should seriously consider the initiation of an Australian-American FTA once the U.S. Congress restores Trade Promotion Authority, the negotiating mandate for the President that has lapsed for eight years.

First, there are straightforward economic gains to be realized from an FTA for businesses, workers, and consumers in both countries. Minister Vaile has pointed out that free trade between our two countries would expand the Australian economy by up to \$4 billion, with gains across all sectors. The research suggests the United States would experience expansion of a similar magnitude.

Second, as pointed out by the APEC Study Centre at Monash University, an FTA would help Australia compete with the rest of the world for investment from U.S. enterprises. Investment creates jobs and spurs productivity increases, which raise worker compensation. Foreign investment also is associated with greater trade in both directions. America's other free trade partners have enjoyed more investment from other countries as well. In effect, a comprehensive FTA with the United States is a signal to the world of a good business environment with predictable trade connections to the largest and most dynamic economy in the world.

Third, an FTA would ensure that Australia's business sector is integrated with the innovation that drives the highly competitive businesses in the United States. North American and European CEOs have talked to me about their need to compete globally while adapting to local markets. To do so, their companies rely on global sourcing, cutting edge product development and marketing, specialized customer service, data mining to better understand market preferences and risk, and productive use of IT operations through new business models. These CEOs tell me that to match their global competition, they expect to operate a core market comprising North America, Europe, and China. Their activities in other markets will be driven by targeted opportunities.

Australia needs to be part of this central network. Australian businesses need to be benchmarked with the best worldwide—to avoid falling behind. The link to U.S. businesses through an FTA offers Australian companies and workers that opportunity.

As professor Michael Porter of Harvard Business School has written, the old natural economic endowments of good harbors and access to local raw materials are no longer the primary determinants of competitiveness. Today, countries need to foster conditions that encourage continuous innovation, the economic use of information, and the creation of knowledge to add value. Similarly, businesses are constantly striving to avoid the fierce pressure of commodity pricing by supplying a value-added service or product.

Given America's global position, an FTA with the United States would enhance Australia's capabilities to compete anywhere.

Fourth, as the report of the APEC Centre at Monash University noted, the productive power of an Australian-American FTA would be especially enhanced because of the nexus it would foster between our IT sectors and businesses using IT to increase productivity and service.

The Economist's Intelligence Unit has rated the United States and Australia first and second in terms of the propensity of our national economies to utilize information technology. As Federal Reserve Chairman Alan Greenspan has suggested, the significant increase in U.S. productivity in recent years and the ability to grow for a record period without notable inflation can be traced to the process of effectively integrating new technologies—especially information technologies—with the ways companies organize production, trade across countries, and deliver value to consumers.

Fifth, an FTA would fit well into the larger trade strategies articulated by both the United States and Australia: to press forward with regional and bilateral trade initiatives while simultaneously advancing trade globally through the WTO and the Doha Agenda. By moving on multiple fronts, we can create a competition in liberalization. We can develop successful models by adapting traditional trade agreements to meet new needs, such as e-commerce. We can establish higher standards in areas such as intellectual property—for example the protection of digital products—that we can then promote in other contexts. And we can make sure the trade system adapts efficiently and safely to address new challenges, such as facilitating customs checks while inspecting for dangerous materials.

Finally, by deepening the ties between our economies and societies, Australia and America would strengthen the foundation of our security alliance. A broader cross section of our citizens would have a greater appreciation of why we should be partners in areas of intelligence, military inter-operability, command-and-control, and security planning.

In that sense, a U.S.-Australian Free Trade Agreement would be a concrete expression of the logic that led to the creation of the Australian American Leadership Dialogue: It would facilitate the building of new networks that enhance our Pacific democracies' mutual interests, shared experiences, and promotion of common values, so we can work together more effectively with others as well.

The leaders of both governments recognize, however, that the negotiation of an FTA poses many challenges. Both the United States and Australia have domestic interest groups that resist openness and fear change. Both have stubborn barriers to trade that must be tackled at home. We hope we can proceed with a broad base of political support in both countries, so that we work through these issues effectively.



### Lowering Barriers to Agricultural Trade

Agriculture, in particular, is a sensitive and important issue that needs to be addressed if we are to advance an FTA.

I appreciate that a topic of special interest is the new U.S. farm bill—and frankly, Australia is one of the few nations with credibility to press its questions.

First, it is important to get some facts straight. As the OECD's director for agriculture policy noted last month, the U.S. farm bill "does not increase the level of support overall in any significant way compared to what it was in most recent years. . . . U.S. support levels with the new Farm Bill will very probably remain significantly below the OECD average, and remain even more significantly below the levels of farm support granted by the European Union."

Indeed, Congress was careful not to surpass the subsidy levels to which we have agreed in the WTO, and even included an unprecedented circuit breaker to cut off funds if spending would exceed those limits.

Most important, the United States remains fully committed to cutting subsidies and reducing barriers to agricultural trade through the mandate that we were instrumental in achieving together at Doha. And as the Cairns Group knows, without U.S. pressure and trade diplomacy, the EU, Japan, and Korea would not have agreed to that excellent framework for negotiations.

The Agriculture Committees in Congress and the vast majority of U.S. farm groups are strong supporters of the Doha negotiations because of the barriers our farmers face. The average U.S. tariff on agriculture is 12 percent, whereas the average globally is 60 percent, Japan is at 50 percent, the EU figure is 30 percent, and even the average for the Cairns Group of agricultural exporters is 30 percent.

The United States will agree to eliminate export subsidies tomorrow if others will too. The EU spends over \$2 billion a year to pay others to buy European farm produce, whereas last year we spent less than \$20 million.

As for internal subsidy support that distorts trade, the WTO ceiling for the United States is \$19 billion, whereas the EU is permitted \$60 billion of subsidies and Japan gets \$30 billion.

So the reality is that until others agree to lower their subsidies and barriers to our and your farm products, the Congress will back our farmers within the agreed WTO rules.

Australia and the United States also should press together not to permit countries to use unscientifically based objections to biotechnology to stifle advances in farm productivity, nutrition, and crops that can resist disease with fewer fertilizers and pesticides. And we

share an interest in resisting the inappropriate use of sanitary and phytosanitary standards to block competition.

### Gaining Support for Trade

Our plans to expand trade and open markets depend, however, on gaining authority from Congress to negotiate and bring home agreements. Under the U.S. Constitution, it is Congress that has the power to regulate trade.

The debate over this authority is crucial for our economies and your businesses. For the businesspeople here, I suspect that most of your business models assume that you will be operating in open markets. Many of those here with a policy background also assume that the United States should keep its markets open, resist protectionism, and negotiate with others to open markets further.

These assumptions may seem rational, but they are also risky given the attitudes of many Members of Congress toward trade.

Trade Promotion Authority—the authority to negotiate trade agreements subject to an up-or-down vote in the Congress—expired in 1994. Congress failed twice in the 1990s to reauthorize this negotiating authority that actually had its origins in 1934, when FDR rejected the protectionism that deepened the Great Depression.

When President Bush took office, he decided to fight for TPA, so that the United States could resume its place of global leadership on trade. And it has been a huge battle.

The opponents of trade let Congress know of their preference for protectionism in no uncertain terms. Unfortunately, many of those who assume that the logic of openness will prevail—the high-tech companies that live off global markets for inputs and exports, the financial services firms that move money globally, the retailers that need access to products from around the globe, the manufacturers that source globally, the foreign investors who create jobs in this country, and certainly the consumers who enjoy lower prices and more choices because of trade—do not do much to convey their interests in openness and trade to individual Members of Congress.

The Administration and pro-trade leaders in Congress have managed to advance the TPA bill—as part of a bigger package of trade liberalization and trade adjustment assistance to workers—through both the House of Representatives and the Senate. Now a Conference Committee of the House and Senate needs to agree on a final version for action by both bodies. Yet the legislative calendar is running down.

The opponents of trade are pulling out all the stops; they are not shy about targeting the key votes.

I believe we will prevail, yet it will be close. The people in this room can make a difference. Just as important, this experience raises a larger point about trade, openness, and the political process.

When I recently read Robert Caro's new volume about Lyndon Johnson, Master of the Senate, I took special note of how Johnson shrewdly maneuvered to pass the reciprocal trade bill of 1955 quickly and quietly. As Caro described, trade has always been a controversial topic in our political system, even in the supposedly halcyon era of U.S. international economic dominance and leadership right after World War II. I know trade has been a contentious topic in Australia's politics, too.

To win support today, the proponents of open markets and of active involvement in the international economy are going to need to educate citizens about the benefits of globalization and trade. Businesspeople will need to let their employees know how trade is integral to their jobs. This communication needs to be ongoing, not just when a particular bill is on the line.

### Conclusion

I will close with one final thought. One hundred and one years ago, citizens of the new Australian nation looked with optimism on a relatively open world of thriving trade and technological and social progress.

By mid century, however, the world had experienced two ruinous wars and international commerce had slowed to a trickle. Market democracies were denounced as unworkable and collectivist ideologies seemed to be on the rise. Even many in the West had concluded that free societies could not compete against central planning.

In 1943, when the prospects for liberty were dark, Fredrich von Hayek argued in The Road to Serfdom that, "If in the first attempt to create a world of free men we have failed, we must try again."

Well, Australians and Americans did try again, and within the space of a single lifetime we have seen the collapse of the Soviet empire, along with the spread of democracy and liberty worldwide. Over the past decade, we have witnessed the number of people participating in the global market economy increase from about one billion to some five billion.

Now we are in the midst of a new modern era of globalization.

Australians and Americans need to make this age of globalization one of true security, opportunity, openness, and hope. We need to enable more people to take responsibility for their futures through the exercise of political and economic liberty, to seek their own pursuit of happiness.

Our ties are not—clearly not—of geography, but instead are bonds of common spirit and values and interests.

That is why the partnership between Australia and the United States is of special importance, for the Pacific and the world.