

# Country Report **1**

## Australia Country Report

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# AUSTRALIA

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## **Australian economy and East Asia**

For 30 years, Australia has attempted to find a balance between its traditional ties with Europe, vital links with the United States, and the emerging possibilities of a fast-growing Asia. Australia sees the advantage of its unique location in Asia and the Pacific. It is committed to supporting Asia-Pacific Economic Cooperation (APEC) along with the East Asia Summit process as mechanisms for promoting regional integration.

East Asia is Australia's main regional trading partner. Australia's export of natural resources and domestic market are vital to the economic growth of East Asia. Australia's economic interest lies in not only maintaining the resource, energy, and manufacturing trade but also in expanding its role in the financial sector and other service sectors.

There are conflicting views on the recent proliferation of Preferential Trade Agreements (PTAs) in East Asia. Some argue that because of increasingly complicated rules of origin, the trend is likely to distort and derail rather than encouraging broader and deeper economic integration. Others believe that the proliferation of PTAs is a natural way to promote region-wide integration, which will be built on the clusters of bilateral FTAs.

## **Importance of financial integration**

From Australia's perspective, financial integration is as important and necessary as trade arrangements. The lessons learned from the Asian financial crisis clearly underpin the importance of financial cooperation in the region.

With underdeveloped financial markets, countries in the region have fewer opportunities to fund investment and lack a mechanism to allocate capital more efficiently. From the Australian perspective, strengthening the domestic financial

markets is the step toward regional financial integration. With a wealth of experience in financial reform and strong capital markets, Australia could play a more active role in the development of East Asia's financial integration.

### **A roadmap and challenges to East Asian economic integration**

Current East Asian economic regionalism is underpinned by two seemingly contrasting trends: the increasing interest in "financial integration" and the growing numbers of bilateral and sub-regional PTAs. The latter can be matched with the former only if preferential trade initiatives are structured to be the building blocks of economic integration.

The underlying goal of regional economic integration is to strengthen regional cooperation in East Asia and to help the economies in the region avoid a financial crisis and other similar catastrophes in the future.

East Asian economies face challenges such as domestic reform, need for realistic and concrete strategies to move toward integration, lack of a regional authority to help control financial volatility, underdeveloped financial markets, and the existence of competing regional architectures. In addition, competition between China and Japan for leadership in the region, the relationship with the United States, and the region's diversity in many respects pose politico-economic challenges.

The likely solution is to opt for something akin to the earlier APEC notion of "open regionalism", designing institutions and agreements that can flexibly be extended to incorporate additional members. Moreover, realistic and plausible views are needed in designing a framework for regional economic integration.

It is important to set attainable targets within realistic timetables so that, gradually, progress can be expected and observed. Due to the different nature and conditions within each nation, East Asian economic integration should be "a hybrid regionalism", a regional arrangement that is beyond Japan's, China's, and other single country's influence.

To accelerate trade liberalization and integration, it is necessary to enhance free trade and factor mobility across the region; to recognize that unilateral trade liberalization is usually in the interests of each country; to minimize security risks of cross-border transactions; and to improve competitiveness through structural reforms in domestic markets.

To foster financial integration, there is a need to build a more concrete framework that may include, but is not limited to, provision of peer country assistance in financial reform; coaching and training to achieve consistent application of policy, legal and

regulatory standards across the region; improvement of accounting standards and skill; clarification of tax rules; upgrade of corporate governance standards; greater transparency and peer surveillance of macro-economic policymaking; better understanding of how closer trade and financial integration imply macroeconomic linkages that will need to be managed.

To harmonize PTAs in the region, ASEAN as a whole and as individual countries, should set and maintain a common standard of practice in trading arrangements. In addition, long-term impacts and benefits should be considered against short-term gain when deciding on the common standard of practice for the PTAs.

To further develop the studies of regional economic integration, the Economic Research Institute for ASEAN and East Asia (ERIA) should be established as a regional think tank that provides broad-based as well as empirical analysis on the trends, challenges, and opportunities of regional integration, and suggests practical recommendations to leaders and relevant officers based on careful studies. The research agenda for ERIA should include both the noneconomic as well as economic aspects of the integration. Greater interaction between policymakers and researchers, and high quality, policy-relevant research, will be of critical importance.