



**The lessons of the Euro Crisis : New Asian Financial Order?
-the Japan's point of View –**

Hideki Hayashi (EUSI in Tokyo)

Abstract

This article studies what is the interpretation of the Euro Crisis on Asia, regarding the various measures and the frameworks of coping with the Crisis in the region, especially in the financial sector. When we discuss on the measures to cope with the Crisis, it is important to distinguish the short term, urgent measures between middle and the long term measures. Concerning the latter, it is essential to analyse them based on the Institutional approach, rather than Intergovernmentalist approach, since such middle and long term measures should be realized in the reliable, self-enforcing institutions.

First in the Euro Crisis, both short term measures and middle term measures have been implemented mainly by European institutions, namely the EU and European Central Bank (ECB). In Asia, on the other hand, the short term and urgent measures were implemented mainly by the IMF and other supranational institutions. Then in Asia such short term measures continued to exist and developed as various frameworks such as Chiang Mai initiative, which was also effective for preventing the contagion of shocks from Lehman shock and the Euro Crisis which revealed later on global basis.

Still, in Asia, the overall framework or institution which cope with the regional crisis will be required, as Chiang Mai initiative is, even though it has been enforced and widened since the time of Asian Crisis until now, merely the safety net agreed and maintained by the central banks in ASEAN + 3.

To establish such effective institutions to prevent the regional crisis, the discussion on the economic integration among the governments of ASEAN + 3 and other regional actors is essential, based on the political stability among ASEAN +3 nations. Japan should naturally contribute to such discussions to establish the effective institutions for such purpose.

Key Words : Euro Crisis, Asian Financial Crisis, institution, safety net, Banking Union, EU - Japan Relations

Introduction

In Europe, when Greece Debt Crisis revealed in Autumn 2009, the price of Greek government bond crashed. The shock spread first to the small countries, Ireland and Portugal, then, as the serious situation continued, to the middle and large countries, Spain, Italy and even France. The situation continued to worsen at least for three years, until the EU and European Central Bank announced the measures which seemed to be effective in Autumn 2012.

In Asia, also, since the Asian Financial Crisis happened in 1997 in Thailand, in the form of the sudden fall of the foreign exchange rate of Thai Baht against major currency. Then it prevailed to Indonesia, Philippines, Malaysia, then finally almost all Asean

countries and Korea, until these countries were saved by the rescue package of the IMF and other organizations.

Based on these histories in these two areas, what are the difference between two Crisis and what should be discussed ? As is mentioned already, the Crisis happened in the former in government bond markets and the latter in foreign exchange market. Concerning the rescue of the countries in trouble, in Europe the EU and European Central Bank (ECB) acted the major role, even though the IMF worked jointly with them, on the other hand in Asia, the IMF acted the major role.

Still, in this article, such comparison should be made more deeply by the measures to overcome the crisis should be divided into two categories, namely, one is the short term and the other is middle-long categories. The importance of such classification comes from the different characteristics of these two kinds of measures. First, the short term measures should be implemented urgently and effectively. In order for the short term measure to be effective, the content of such measures should go beyond the expectations which had prevailed among the key actors in global societies, both in political and economic. Second, in order for the medium and long term measures to be effective, the institutions, which are based on the proposed measures, should be both credible and sustainable. Such institutions will continue to exist and develop, and will be believed as a rule, which will be relied upon, both politically and economically.

In this article, first, the discussion is made on the Euro Crisis, on what are the reason and the background of the Crisis, and then the measures to cope with the Crisis, both in short term and middle-long term. Second, the discussion is made on Asian Crisis in the same way. Then finally, the measures taken for both Crisis are compared and the implication on the measures which should be taken in the future, as a conclusion. In relation to the conclusion, the previous effort and contribution of Japan to solve the Crisis, and the possibilities for future, especially in Asia, will be mentioned

The Euro Crisis : how it happened and worsened

In Autumn 2009, Greek new government announced their huge fiscal deficit had been hidden by the previous government. Although the fact had been known in Europe and there had been the strict criticism especially from the major countries such as Germany, it was the unexpected shock for global societies, especially in global financial market. It was the substantial start of the Euro Crisis, which has been continuing even now.

Still, why has the Euro Crisis continued for so long since then ? There may be at least two reasons. First, so-called the vicious circle, or vicious 'triangle', which composed of three factors, the deterioration of the economic situation in the Eurozone, the fiscal crisis, and financial crisis, has occurred (Bekx 2012). After Lehman shock happened in September 2008, the situation of the Eurozone economy were seriously affected by global factors including the decrease of export from the Eurozone. Then, in response to

such deterioration of economy, the fiscal expenses of the Eurozone governments increased, on one hand, almost automatically by the increase of social securities expenses, for example that of the unemployment insurance, and on the other hand, by the discretionary increase of expenses decided by the Eurozone governments, especially of the countries in trouble. Such increase of the fiscal expenses lead to the increase of supply of government bonds, which worsened the environment of the Eurozone government bond markets. At this stage, the balance of supply and demand in the market worsened. Its price went down sharply, in other words, the yield of bond went up. Especially there were widespread fear in the markets that the fiscal situation would not be improved in some countries, such as Greece, since the plan of decreasing the fiscal deficit announced by the governments were not credible.

So the decrease of the price of such countries was always larger than that of Germany, which is the 'safest' country in the Eurozone. At this stage, the divergence between the yields of Greek government bond and that of German government bond which has been the *benchmark* of Eurozone bond market, has widened.

What were the results of such unstable situation? First, it naturally increased the cost of funding for Greek government, which further had the negative effect on its fiscal balance. Under such situation, since the cost of raising the money for income continue to increase, it was more and more difficult for the countries in problem to improve the fiscal balance. Second, the unstable situation had the tendency to prevail to the neighboring countries such as Portugal and Ireland, the economic size of which is relatively small in Eurozone, then later Italy and Spain, relatively large economy, through the intensified anxiety of investors. This is called the contagion of the crisis. Third, under such circumstances of government bond, not only Eurozone investors but also global investors, who had invested Greek and other countries' government bond were worried about the fiscal situation of these countries and decided to retreat from the investment. The above-mentioned situation as a whole can be called the fiscal crisis.

Then, the fiscal crisis caused the financial crisis. In Europe, most banks holds the the government bonds as their assets, especially those of their own countries. Such phenomenon still existed even after the integrated Eurozone financial markets have developed since the introduction of the Euro in 1999. In addition, the feeling of *home bias* have been still existing by which European banks tend to invest the government bond of their own country, as the banks are confident that they are well informed of the condition of the government bond of their own country. At the same time, major banks in the Eurozone, especially in large countries such as Germany and France, expanded the holding of the government bonds since the introduction of the Euro, not only of their home countries but also the small and peripheral countries such as Greece. It was mainly because the exchange rate risk from such holdings was eliminated in Eurozone markets and the yield of the government bonds of small countries such as Greece were

normally higher than those of Germany and France, reflecting the fiscal situation of such country, which means the investors of the government bonds of small countries had to owe the lower risks and could get the higher profits. But when the fiscal deficit measured in GDP for Greece has become worse than expected, the investors changed their mind at certain point and decide to retreat from the investment to Greek government bond. At this stage, such change of the decision by the major investors naturally cause the strong negative effect on the price of Greek government bond further. In other words, the fall of the price of Greek government bond was accelerated by the decision of the investors. Then the fall of the price prevailed to the other government bonds, Irish, Portugal, and Italian and Spanish. Then the fall of the price of the bonds also affected the value of the government bonds which remained on the assets of banks in Eurozone. They suffered from the huge evaluated loss of the assets. At this stage, the *fiscal* crisis caused the *financial* crisis in Eurozone.

Finally, when the financial crisis were deepened, the European banks were more and more reluctant to lend the money to the corporations in the industries. It is because when the banks got the loss from the Greek bonds, their financial results were worsened and the decision for providing the loans, as a whole, were also affected negatively. As a result, The decision by the CEOs of the corporations in Eurozone on new investment to their new factories etc. were more and more pessimistic and the corporations were less active due to the restriction of the availability of money provided by the banks. In this way, as is mentioned, in the Eurozone, the vicious circle of the deterioration of the economic situation, the fiscal crisis, and financial crisis, has occurred.

Even though such vicious cycle were existing in Eurozone, why did the crisis so deepened ? Was any necessary or valid measures not taken when the situation of the crisis worsened ? To answer these questions, the strict and negative attitude of Germany together with some other rich countries in Northern region of Eurozone, such as Finland and Netherland should be considered, regarding the discussion on the rescue measures in the EU. Since the fiscal problem of Greece revealed in Autumn 2009, the discussions on how to cope with this issue continued on the EU level and could not reach the fruitful conclusion until May 2010, when the heads of state or government of the Euro area decided to implement the support package for Greece jointly with the IMF (European Commission, 2010).

Urgent measures taken by the EU and the ECB

During the half years since Autumn 2009, the discussion on the EU level continued, but reached to the only partial or minor result due to the strong reluctance of Germany, and such outcome was always behind the expectation of the financial market participants who wished to get the relief from the EU and the IMF on their holding of Greek government bonds.

Why has Germany been so strict about the rescue of Greece? There were some arguments that former Greek government had hidden the fiscal deficit for long time and this was known among the countries including Germany, who doubt the capability of Greek political leaders. At the same time, it is widely understood that Germany disliked the inflation, as they had the bad experience of hyperinflation. As the generous fiscal policy may lead to the inflation via the increase of the expence of govenments, *the fiscal discipline* is also one of the most important idea for Germany. Such German idea was reflected in the Maastricht Treaty, especislly in the Maastricht Criteria which determines the conditions for becoming the member of EMU, on infration rate, fiscal balance, fiscal deficit, longterm interst rate, and exchange rate stability. So if such country like Greece passed the Maastricht Criteria, became the member of EMU and then widened the fiscal deficit and asked the other Eurozone countries for help, it was regarded as 'the free rider', which enjoyed the economic benefit by the increase of fiscal expence and afterwards tried to avoid their own cost, caused from accepting the higher cost of funds or from cutting their fiscal budget. Otherwise the countries in trouble, not only Greece but also the other countries which might had the similar problem,would be involved in the idea of *moral hazard*, under which they had the expectation that they are likely to be saved whenever they had the fiscal problem. In addition, among German citizens, the general dissastisfaction mounted that the money which German citizens payed as tax to their government should not be transferred to the countries in problem such as Greece. The prime minister Merkel and other German politicians should have understood the importance of the role of Germany to solve the crisis on the EU level, but at the same time they could not neglect the voice of German citizens,especially at the time of the election campaign.

Based on these background, such strict attitude of Germany continued even after this first rescue package of May 2010 was announced. The typical example is the strong opposition of Germany against the idea of *Eurobonds*. Eurobond is the bond issued based on the credit worthiness of the EU as a whole, including Germany. It was proposed by the European Commision in later 2011, but has not been approved finally by the Council of the EU. As was often mentioned, the current balance in the Eurozone as a whole has been approximately balanced. On the other hand, the current balances of the Eurozone countries were more and more diverged, for example, between that of Greece and Germany. It was contrary to what was expected at the time of the start of the EMU in 1999, that is, the current balances among the Eurozone countries should be converged once the single currency were introduced. The reason why such divergence has actually widened may be the competition in the various industries strengthened to become the winner in the single market with one single currency and that there was almost no mechanism that compensates this discrepancy, such as the redistribution function of fiscal policy covering the EU,which includes the whole Eurozone. In order to

compensate such discrepancy, the scheme of Eurobond might have been useful. But Germany opposed the idea insisting that it may cause Greece and the other countries in trouble to too much rely on the scheme.

When the urgent measures for the crisis introduced by the EU, the pressures on the ECB mounted. It is because the ECB may cope with the Crisis as the stability of the European financial markets, not only the bond market but also the stock market and foreign exchange market was strongly harmed, and it may have the measures to recover such situation. Since Mario Draghi was nominated as the president of the ECB in November 2011, he started to implement the effective measures to stabilize the financial markets. In other words, President Draghi decided the several measures which were unexpected for financial market participants. First, the ECB decided to implement the long term repurchase operation (LTROs) , by which it will supply the money for the term of 3 years, unprecedentedly long in their operation, to the financial institutions in the Eurozone twice, in December 2011 and February 2012. Banks in the Eurozone were relieved as they could raise the money easily at lower cost from the ECB. It is said that the large portion of the such money were allocated through the balance sheets of the Eurozone banks to invest the government bonds, including Italy and Spain etc. Second, the ECB enforced the facility of purchasing the government bonds. It started Security Market Programme (SMP) for the first time on May 2010, at the same timing the EU and the IMF decided the first rescue package for Greece. Since it was not sufficient considering the deteriorating fiscal situation of Greece and the contagion to the other countries were being realized, especially to Spain, the ECB announced to start the unlimited purchase facility of Eurozone Government Bonds ; Outright Market Transactions (OMT). These two measures, providing the money of long term to the financial institutions and the unlimited purchase of Government bonds, surpassed the expectation of financial market participants at each timing of announcement. In this sense, it can be said they were the effective measures to cope with the crisis. Still, it has to be admitted that they are the urgent, temporary measure to recover from the irregular, unstable situation of the financial markets, only for short term. In addition, their remarkable result at the first stage was based on the surprise at the announcement to the market participants. Therefore as time passed, such positive effects diminished. They did not remove the substantial cause of the Crisis. In other words, they did not stop the vicious cycle, which are composed of the fiscal crisis, the financial crisis, and the slowing economy, to continue.

New Framework of the EU : Is it an Institution ?

Then, what is the necessary condition of solving the Crisis for long term ? The

establishment of the permanent framework, will be the necessary condition but may not be the sufficient one. For example, the European Financial Stability Facility (EFSF) was established on the occasion of the first rescue package for Greece in May, 2010, as the temporary framework. It was supposed to be transformed to the European Stability Facility (ESM) as the permanent framework, scheduled to start from July 2011. Even though there was a delay for the establishment, due to the argument in Germany, the ESM was established in October 2011. But with this establishment, can we say immediately it will work on to improve or solve the Crisis in Europe? Even if the ESM has been acknowledged to work by the financial market participants at the start of the establishment, will it continue to work in the same way from now on?

In order to answer these questions, we should refer the theory on the European Integration. There have been the discussion since long time between intergovernmentalist and neo functionalist. The former assumes the sovereignty of the countries even when they negotiate the opportunities on the integration. On the other hand, the latter stresses 'how spillover processes and the autonomous actions of superrational actors (including the Commission and European Court of Justice) contribute to European policy making' (Pierson, 1996)¹. Still, in this article, we will rely on *historical institutionalism* that, according to Pierson's paper, 'actors may in a strong initial position, seek to maximize their interests, and nevertheless carry out institutional and policy reforms'. The reason why we rely on historical institutionalism is that, it understands the integration as a path-dependent process 'in which initial institution or policy decisions can become self-reinforcing over time' (Pierson, 1996).

It will specially applicable to the analysis of the institution and policy in Europe, which will be developed for long term, not only to cope with the present Crisis but also to prevent the Crisis which may happen and cause the problem for the European Integration process. It is because the institution built for the European integration should be self-reinforcing, in other words, credible and robust over time, facing the expectations of financial market participants, which may change from time to time.

Having these discussions in mind, we hereby examine what has been decided in the EU and how the institution for further integration process will become credible for the long term.

First, at the European Council in June 2012, it was decided to develop 'a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union'. Under this agenda, the Council clearly decided to take the measures of the Banking Union, which are composed of three frameworks, the Single Supervisory Mechanism (SSM), the Single Resolution Mechanisms, and the Deposit Guarantee Mechanisms.

1. The analysis of Institution is the overlapping area between Politics and Economy, especially when the focus of analysis is on the historical development of Institution (Pierson, 1996).

It was the turning point of the EU policy and the step of building up the frameworks for further integration of Economic and Monetary Union. Under this decision, the European Council announced clearly that, among the three factors of 'the vicious cycle', the financial crisis should be attacked by the Banking Union, before the other two factors, the fiscal crisis and the slowing economy, in order to pave the way for the longer term integration. In other words, the European Council took the realistic approach to cope with the financial crisis first, as it was already found out difficult to solve the fiscal crisis directly, either by the issue of Eurobonds to allocate the money to the countries in the Eurozone or by the effort of respective countries in trouble to recover from the fiscal deficit. Concerning the three measures of the Banking Union, the Single Supervisory Mechanism (SSM) was understood as the top priority. It is because, first, only after the Single Supervisory Mechanism was realized, the direct recapitalization of banks supposed to be possible, which will be the effective way to stabilize the financial sector in the Eurozone, without affecting the fiscal balance of the country where the banks in problem are located. Second, the European Central Bank (ECB) is acknowledged as the credible actor which has the various measures to stabilize the financial market, not only in the Eurozone but also on the global basis.

Then, after several discussions, in 5 December 2012, the so-called 'Blue Print' was proposed by President Herman Van Rompuy of the European Council. It was officially titled 'Towards a Genuine Economic and Monetary Union'². It was basically agreed later as the Roadmap for the completion of EMU, in one part of Conclusions of the European Council on 13/14 December 2012. The Blue Print specified the three stages as the time framework; Stage 1 (End 2012-2013), Stage 2 (2013 – 2014) and Stage 3 (post 2014). At the same time, the three main policy areas were mentioned, corresponding to the each factor of the vicious cycle of the Crisis, Integrated financial framework, Integrated budgetary framework, and Integrated economic framework. In this way, the time schedule for three policy areas were specified. According to this time schedule, the Integrated financial framework should have the priority. Most works on this area should be done in Stage 1 and Stage 2. Especially, 'it is imperative that the preparatory work can start in earnest at the beginning of 2013, so that the SSM can be fully operational from 1 January 2014 at the latest' and under such time schedule 'the legal and operational framework for ESM direct bank recapitalization should be finalized by end - March 2013' (Van Rompuy, 2012). In addition, 'the SSM will need to be complemented by a single resolution mechanism, as well as more harmonised deposit guarantee mechanisms', and the proposal for these two other mechanisms than SSM is supposed to be agreed at Stage 1, later specified 'until June 2013' by the European

2. In Blue Print, Political Accountability is mentioned, as the fourth policy area, which we do not discuss in the article.

Throughout the three stages, 'Commensurate progress on democratic legitimacy and accountability' are planned.

Council . On the other hand, in other two policy areas most tasks should be done in Stage 2 and Stage 3. concerning the Integrated budgetary framework, in spite of some additional frameworks (so - called 'two-Pack ') which strengthen the fiscal discipline of the Eurozone countries, the two new frameworks will be realized later ; Financial incentives linked to contractual arrangements at Stage 2, which provides the incentives, based on the mandatory agreements for Eurozone countries, to the countries which make effort to improve the fiscal discipline, and Country-specific shock absorption at Stage 3, which includes the setting-up of risk-sharing tools called Fiscal Capacity,a kind of common funds to absorb such shocks. In the area of Integrated economic framework, in addition to the framework for ex-ante coordination of economic policy reforms which is already existing, the arrangement of the surveillance for the corodination assume the development of the frameworks in other policy area,especially the Integrated budgetary framework. Therefore it will be implemented basically at Stage 2 or later.

In this context, it may be said the initial plan of institution, including the time schedule, has been set in December 2012. It will be the step-by-step measures, which will evolve based on the accumulation of the results of three policy areas, in other words, from Banking Union to Fiscal Capacity. Based on such initial setting, the new institution of the European Integration will evolve as the self-enforcing, robust one depends on the interaction between the implementation of the EU on it had announced at the initial stage and the response from the external environments, either positive or negative, especially from financial market participants.

Asian Financial Crisis : The development of safty net

Asian Financial Crisis revealed first in July 1997 in Thailand, and then prevailed to Indonesia, prevailed to Indonesia, Philippines, then finally almost all Asean countries and Korea,until the end of the year. Here in this part, it is not our purpose to follow the whole story of Asian Financial Crisis on how it happened, deepened and finally settled, but to describe some points,which seem interesting to compare the case of the European Crisis.

First, Asian Financial Crisis revealed at the sharp deperciation of the Asian local currencies in the foreign exchange market, starting from the sudden depreciation of Thai Bahts. The background of such movement in the financial market was, the pegging of Thai Bahts with US dollar, the international currency, had not become credible, at the point after the inflow of money from outside into the financial market in Thailand. First, the inflow of money sustained the pegging of Thai Bahts with US dollar. But when such inflow of money continued and it went through the channels of banking sector to the real estate markets, which raised the real estate price to the irrational level. Then the foreign market participants decided at certain pont to retreat from Thailand. On the contrary, the start of the Euro Crisis was the sharp decrease of the price of Greece

government bond. It was because the fiscal deficit of Greece was the trigger of the crisis and because there was almost no other way for financial market participants to react, since Greece had adapted the Euro, the single currency. Generally speaking, the foreign exchange market is more volatile than the government bond market, since the flow of money in the former moves in the shorter term than in the latter. Still, at the time of the Crisis, it was the common phenomenon in Thailand and in Greece in the sense that both countries relied on the inflow of the money of the overseas market participants, who decided to retreat, then serious shock was caused in both markets. Then the same story also applies to *the contagion* of the crisis, affected by the intensified anxiety of financial market participants. In Europe, from Greece, the crisis had spread to the government bond market of Ireland, Portugal, Italy and then Spain. In Asia, the crisis had spread to the forex market of Indonesia, Philippines, Korea and most other Asean countries.

Then the second question was as follows ; who were the actors who have arranged the rescue package, to cope with the Crisis ? To cope with the Euro Crisis, it was mainly the EU and the ECB who have acted for the urgent measures. The IMF also contributed, but they acted basically in the collaboration with the EU and the other European actors, as was typically seen in the case of arrangement for the rescue packages of Greece. On the other hand, it was the IMF who arranged the urgent rescue package and planned the economic policy regime for each Asian country in trouble. Still, there were some measures taken based on the Asean regional framework. The setting up of Asian Monetary Fund (AMF) ,which Japan principally worked to establish,was finally not successful,due to the objection of US (Gilson, 2000). Later in May 2000, Chiang Mai Initiative (CMI) was agreed, 'which is the network of bilateral currency swap agreements among ASEAN +3 (Japan, Korea and China) countries, to address short term liquidity difficulties in the region and to supplement the international financial arrangements'. In the same way, the Asian Bond Market Initiative (ABMI) and the regional surveillance on economic policies started, but Chiang Mai Initiative (CMI) has been the main pillar of policy on the Asian level to cope with the Financial Crisis.

Is the Asian Financial Order and Economic Integration developed ?

We have examined already on how the long term framework for coping the Crisis in Europe will be built. How about the Asia ? In addition to the short term measures taken in Asia,which was mentioned in the previous paragraph, what developed further as the long term framework for preventing the Crisis in Asia in future as the Institution ?

First, the framework of Chiang Mai Initiative developed and worked efficiently in order to prevent the crisis or prevent the contagion of the crisis, from the external shocks such as the Lehman Shock or European Crisis. In other words, it originally started as a Crisis Facility and then developed as the permanent facility to prevent the

future crisis in Asia. In line with this development, the multilateralization of CMI (CMIM) started, in which the bilateral swap was converged to multilateral, and at the same time the total size of the facility increased (Park, 2012), in order to strengthen their effectiveness in the financial markets.

Second, the Asian Bond Market Initiative (ABMI) started and developed. It is based on the idea that one of the reasons why Asian Crisis was so serious was the dependence on Banking sector was too much in the Asian financial market. The Asian banks, typically in Thailand, received the huge inflow of money from outside of the country as their funding and arranged the loan rather easily to the inefficient sectors such as the real estate sectors. In this situation, when the loans were unlikely to be repayed, as the Banks' evaluation for borrowers were generous, the overseas market participants started to worry about the situation and retreat from lending the money to the Asian banks. On the contrary, if the Bond market would develop, it was expected that the investment behaviors are more rationally, as the investors could know directly to which the investment would be allocated and what would be the detail of the investment. Based on these discussions, the new frameworks of the Asian Bond Market Initiative (ABMI) developed by the finance ministers of ASEAN+3, leading to the Asian Bond Fund (ABF) starting from 2003, which invest the sovereign and other kind of bonds, and Asean + 3 Bond market Forum, where the coordination of the regulations of bond markets in Asia and other issues (Park, 2012). Still, the development of bond markets in Asia is going on the ongoing and gradual process.

Third, the regional surveillance on economic policies were also mentioned at the time of the crisis such as the Economic Review and Policy Dialogue (ERPD), in relation with Chiang Mai Initiative. Such frameworks on regional surveillance on the economic policies of Asean + 3 countries continued and the Regional Comprehensive Economic Partnership (RCEP) is under discussion to improve the economic integration through the active trade and foreign direct investment until 2015 (METI, 2012). Still, on this issue of economic surveillance or integration on economic policies, Asean +3 area can be divided to two areas, Asean and Eastern Asian Countries, Japan, Korea and China.

Among the Asean countries, such discussion has been made for long time, which should become the base for whole Asean+3 regions. On the other hand, among the three Eastern Asian Countries, the economic integration through the active trade and foreign direct investment has been the agenda but the discussion has not been so active hampered by the political issues, especially on the island territory issues, between Japan and Korea, and between Japan and China. Therefore the success of RCEP will largely be based on the base of the integrated framework which has achieved up to now in Asean and the important question will be that, how far the three Eastern Asian Countries, Japan, Korea and China, will participate in the discussion positively and flexibly.

Based on these discussions in three categories, Chiang Mai Initiative, the Asian Bond Market Initiative (ABMI), and the Regional Comprehensive Economic Partnership (RCEP), it can be said that the first one, Chiang Mai Initiative has worked not only as the framework, but also, after it has continued to develop and enforce the function, it has been working as the permanent framework to prevent the crisis in the region. The other frameworks were gradually processed and still on the way of development. Still, even though Chiang Mai Initiative has become the permanent framework, because its function is to provide the funds to the country which has the problem. So it will be useful to prevent or cope with the financial crisis, especially caused from then outside of the area, but it will not necessary survey and correct the structural problems which caused inside the area.

Why is the present situation of the framework in Asia is like this ? First, economically, since the Asian countries suffered the Financial Crisis, most countries strongly recovered, because they are basically high developing countries with the labors of high quality and relatively low cost and also because the falling down of their currencies during the time of the crisis contributed to recovery of their export thereafter. So it was not essential for the Asian countries to discuss the further integration process, especially on the coordination of economic policies.

Second, politically, the political dispute especially in East Asia, It was already mentioned above, hampered the progress of discussion on the integration process. Also, the discussion of Asian Currency Unit (ACU), which would pave the way for the Asian single Currency, has been said that it was hampered by the dispute of the initiatives in this area among the three countries in east Asia.

Even though Chiang Mai Initiative has the successful framework, it should be reinforced by the other frameworks for the capital markets the economic policy surveillance in the region. These frameworks as a whole, may work as the Institutions which are credible and self-reinforcing, enough to prevent the crisis and contribute to the further integration process in the region.

The implication on the role of Japan

Finally, as the appendix, we refer the implication of these discussion on what should be the role of Japan, to contribute the stability of the regions, both in Europe and in Asia.

First, Concerning the short term measures to cope with the Euro Crisis, Japan contributed directly and indirectly. Directly, 'Japan has been purchasing European Financial Stability Facility (EFSF) bonds'. In addition, in January 2013, the Ministry of Finance Japan announced the purchase of bond issued by the ESM. Indirectly, 'Japan has been working through IMF ', for example ' Japan had signed \$ 100 billion to strengthen fire wall after Lehman shock Japan has signed \$ 100 billion Borrowing Agreement with the IMF in February 2009 ' and 'the EU can use this money to support

euro member states in financial trouble' (Tanaka, 2012).

But as we have argued previously, the EU and the ECB have worked as the main actors to cope with the Crisis and from outside of the Eurozone the IMF and major countries such as the US and Japan have acted as the complementary role.

On the other hand, to strengthen the economic relations between Japan and the EU / the Eurozone for the long term, the start of the discussion on FTA between the EU and Japan in November 2012 was decided in the EU³. Even though the opposition on both sides, for example the agricultural sectors in Japan and the automobile sectors in some countries in the Eurozone, it will pave the way for the new era for the economic relations between Japan and the EU. For the main issues of arguments have been the trade conflicts caused from the rush of long time since the world war II. While the overall agreement of collaboration turned out to be ineffective, such the Action Plan based on the Hague declaration in 2001 (Berskofsky,2012), the FTA may improve the economic relations between Japan and the EU substantially.

Next, on the measures to cope with Asia, even though there are some arguments and criticism especially from Europe, that Japan did not contribute to recovery of the EU from the Crisis. But actually, Japanese government made the various efforts, in addition to the plan of Asian Monetary Fund (AMF), Chiang Mai Initiative and Asian Bond Initiative(ADBI) as already mentioned (Gilson, 2001).

Concerning the long term framework, the key question will be how Japan can contribute the development of ASEAN + 3 as the credible, self-enforcing the Institution. In order to achieve purpose, how Japan work intensively to the RCEP, as was already discussed, in which the coordination of economic policies are supposed to be discussed and the integration of the internal markets in Asia, will be the key issue. In this regard, considering the difference of the stage of economic development in Asian countries, it is wise to develop the *bilateral* discussions between the countries in Asia on Free Trade Agreement and the development of FDI.

Finally, to discuss on this long term framework, the comparison with ASEM will be useful. It is the Institution develops historically, sometimes depending not only on the starting point but also on the pass on the itinerary. ASEM started between the EU and ASEAN+3 as the informal body started in 1996, mainly for the economic discussion. Its background was the economic miracle of Asia was apparent at that time in early 1990s,

3. The FTA negotiation between Japan and the EU Brussels is the important issue to be left for the discussion on another occasion, after following how the negotiation will go on. Japan's positive attitude towards the FTA with the EU has been largely affected by the already existing FTA between the EU and Korea. It is because the industrial structure of Japan and Korea are so similar ,concentrated in manufacturing such as automobiles and electronics that the FTA between the EU and Korea has caused the great benefit for Korean companies compared to Japanese companies.

so 'the rise of the economic potential of the Asian region and its growing markets attracted EU member states to participate in ASEM in 1996'. Then, right after that in 1997, the Asian Financial Crisis revealed. As a result, ASEM had become the useful framework to discuss how to cope with the crisis for both parties. Based on these discussions, once the framework of ASEM was established, it worked as the multidimensional institutions, 'devoting equal weight to political, economic and cultural issues' (Gilson, 2001).

Conclusion

In this article we have discussed the measures to cope with the Crisis both in Europe presently and in Asia in 1990s.

First, we classified the measures to cope with the crisis into two categories; the measures in the short term which are the urgent remedy of the Crisis and in the those long term which will prevent the Crisis and strengthen the present economic and political frameworks. Second, whether the long term measures can develop as the establishment of Institutions, which is credible and self-enforcing and also develops historically.

Based on these two criterias, we analysed the current situation, first in the Eurozone. Even though the European Crisis is still the on-going process, the urgent measures to cope with the crisis on the EU basis, by the EU and by the ECB have been effective. On the other hand, the long term measures to achieve the further financial, fiscal and economic integration are only at the starting point of building up, when the decision is made based on the road map and the discussion towards the end of the year 2012.

Then, among the various short term measures taken in Asia which were planned during the Crisis in 1990s, most successful framework was the Chiangmai Initiative, arranged among ASEAN+3 countries. Since the Chiangmai Initiative is the framework to provide the funds to each other, it was useful not only for the short term to cope as the for urgent measure, but also for the long term to prevent the future crisis. Therefore it was strengthened and developed. At the same time, it only covers the arrangement of provide the funds to each other and the further development of integration in ASEAN+3 has not developed. So in order for ASEAN +3 to become the Institution, further discussion especially on the coordination of economic policies and the integration of markets in Asia are required.

Finally, as the appendix, we refer the implication of these discussion on what should be the role of Japan, to contribute the stability of the regions both in Europe and in Asia, both for short term to help the improvement from the Crisis and the coordination of economic policies for long term. In order to contribute the latter points, it is very interesting to find that the free trade discussions will be the key for the Japan's relation both with the EU and Asia.

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