

**Japan-China-Korea (A3) Conference
Monetary and Financial Cooperation in the Region**

Handout



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Reasons and impacts of Euro crisis and implication to Asia

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DRC

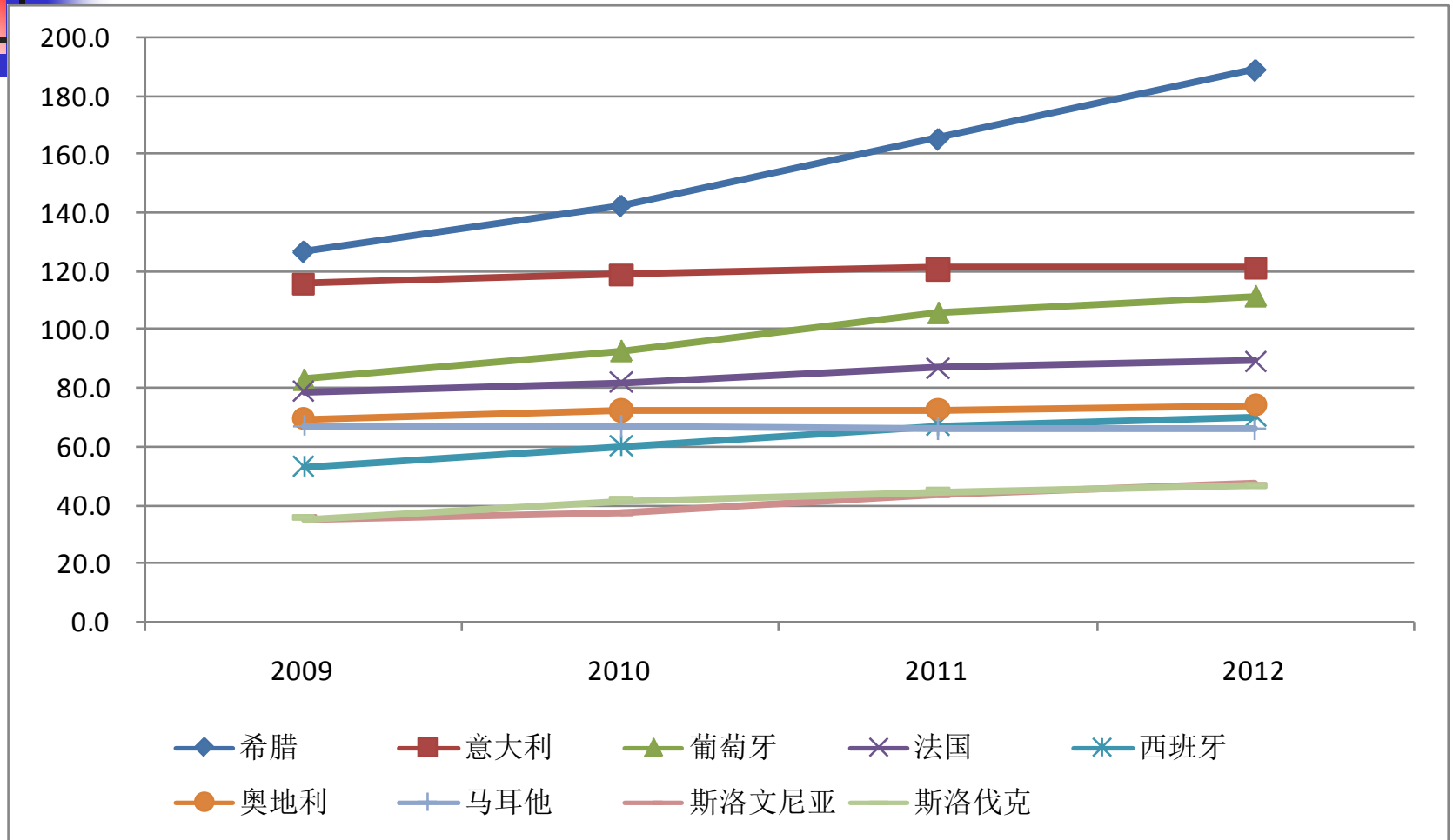
May 24, 2012



Contents

- What's the reasons of Euro crisis?
- What's the impacts of Euro crisis?
- Implication to Asia financial cooperation

General Government Gross Debt, %/GDP





What is the reason of the crisis?

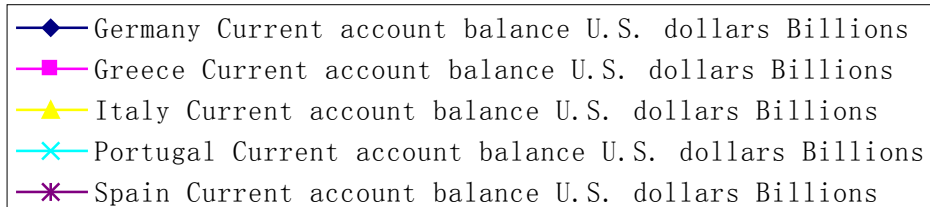
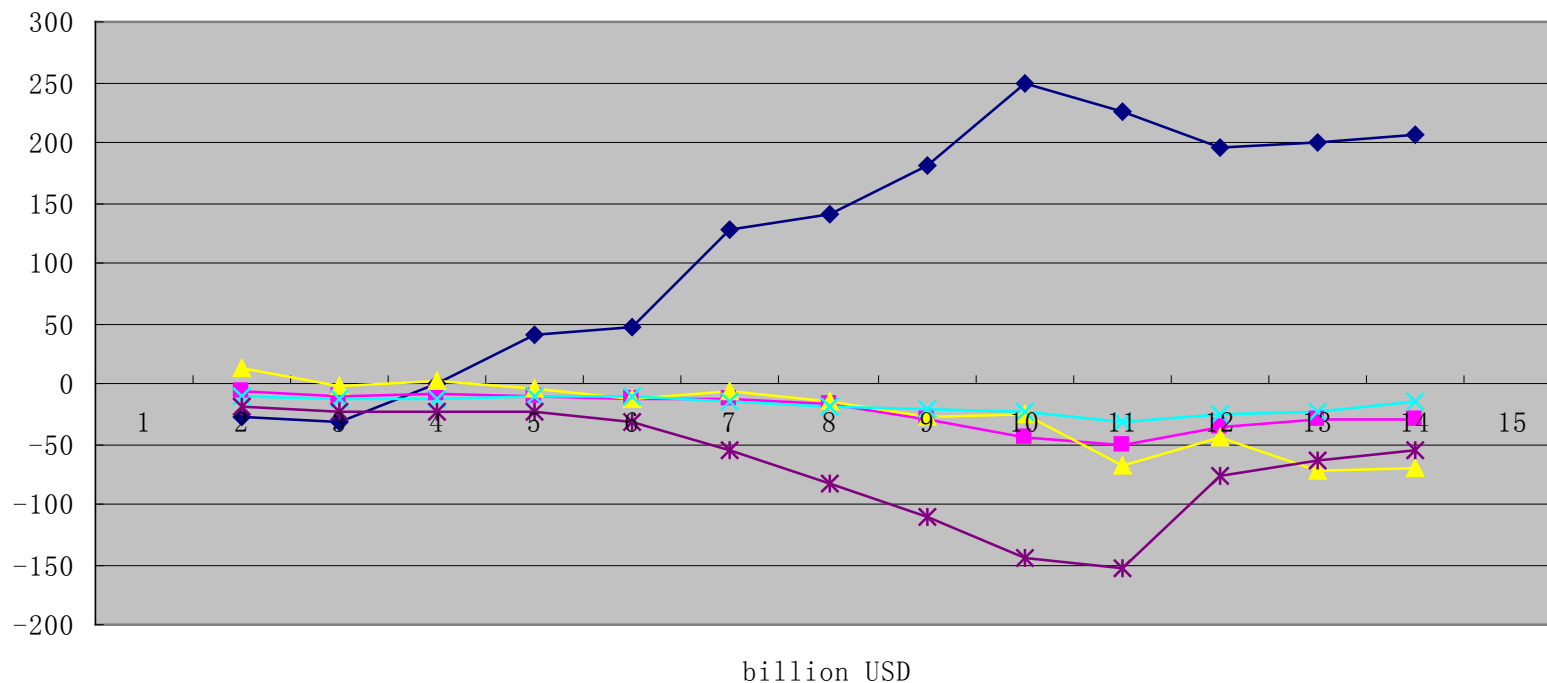
- People think the high ratio of debt is the reason of the crisis.
- If it is true, why Japan and US have not government debt crisis, while their debt ratio are 230% and 100%, respectively?



There must be some other reason

- Japan's government debt is mainly internal debt
- US can finance its debt by means of issuing USD, as USD is international currency
- Euro is also international currency, why Euro countries, such as Greece can not finance its debt as US does?

Balance of current account(1999-2012)





If there were not Euro

- Germany currency, Mark, should appreciate a lot
- Other currencies of deficit economy should depreciate a lot



If in a single country

- How to deal with the regional disparity?
- There are two main way to compensate the backward region: fiscal transfer by the central government and migration of labor
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In Euro zone

- Weak economy such as Greece can not depreciate its currency, no fiscal transfer from outside and can not mitigate unemployment by labor migration within Euro zone
- Nor can it finance its debt by issuing more currency
- The only result is crisis!



Impacts of Debt crisis

- Shock to stability of financial market, if Greece retreat from Euro zone, the shock will be even bigger
- Weaken the abilities of private financial institutes
- Tighten of government fiscal policy
- There is not a real solution of the debt crisis, the impact may be last in long time
- Slow down the economy, as well as trade and investment



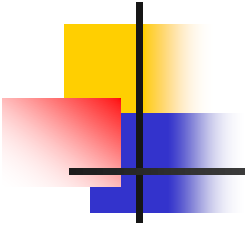
Impacts to China

- Risks of investment of foreign reserves
- Loses of private investment in EU financial market, for example, 20 billion Euro lose of Ping An Insurance
- Slow down of export to EU market, the biggest market of China's export, -2% in the first 4 months
- Opportunities for M&A



Implication to Asia Financial cooperation

- Asian Dollar may not be the right choice
- Regional Financial cooperation should follow the requirements of real economy, development of economy, trade and investment
- Enforce regional development financial cooperation, ADB
- Development of currency swap among regional economies
- Trade settlement using each country's currency
- Open financial and capital market among region
- Feasibility study of establishing regional monetary fund



- Thanks!