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Abstract

This paper analyses impacts of the Eurozone crisis on the global standing of the European Union (EU) through the failure of the EU interregional approach in the EU-ASEAN plurilateral discourse. It appropriates theoretical models of socialisation, in order to explain the dearth of cooperation in the EU-ASEAN plurilateral partnership during the Eurozone crisis. The paper draws on comparative accounts of financial crises and exit strategies from the EU and the Association of South-East Asian Nations (ASEAN). It further utilises the systemic hypothesis from the work of Agarwal and Fogarty on interregionalism (2003) and the appropriateness hypothesis of Schimmelfennig and Sedelmeier (2004), in order to advance two propositions: (i) democratization is an unlikely avenue of EU 'externalization' in the EU-ASEAN plurilateral partnership; and (ii) preventing financial crises is the likeliest avenue for lesson-drawing in the EU-ASEAN plurilateral partnership but only if lesson-drawing can go beyond the scope of EU processes and policies, i.e. where the EU can itself be influenced by broader tendencies and patterns in the international system (Schimmelfenning 2012). Failure to see beyond the normative ontological quality of the EU, is likely to diminish the global appeal of the supranational integrative model of the EU and may re-enforce instead the preference for bilateralism over interregionalism in the EU-ASEAN partnership.

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I. Explaining financial crises

That the world is in some sort of crisis is plain to see. Much of this crisis is about prosperity. In the past, societies have prospered for different reasons. In the early stages of globalization, prosperity was synonymous with discovery, spurred on by trading companies and growing empires. During the 20th century, prosperity was equated with invention, guided, first, by neo-classical models of increasing returns to scale (Robinson 1978); then by a race to the top through opposing ideologies of belief-based realism. In some instances, they led to Keynesian interventionism; in others, they produced command economies (Brus and Laski 2003). The post-Keynesian revolution professed the neoliberal model (Jones 2014). The collapse of socialism led to the pursuit of the 'American dream' (Sachs 2012). With two major financial crises only a mere decade apart, in East Asia (1997) and in the EU (2008), we are looking for new paths to prosperity beyond known models and their limitations.

The discourse on prosperity is certainly not confined to economics alone, with political scientists of the institutionalist tradition heavily wielding in. In the post-WWII period, a positive correlation between Western-style democracy and prosperity was conceived (Lipset 1959). Yet, its limited application to states of early industrialization (e.g. UK, USA) rendered its universality limited. Przeworski (2004) argued that whilst a positive correlation was universally unascertainable, high levels of development allowed existing democracies to survive. The implication was that democracy could sustain minimum growth (say, 1.4% p.a.) and, therefore, prosperity in France was likelier than in post-colonial Mali. Cyclical crises of increasing frequency have called for the pursuit of alternate explanations to the liberal democratic covenant (Fukuyama 1992). Culture theory proposed that development was a prerequisite for a civic ethos based on a transition from economic survival to self-expression and from traditional to secular values, which, it argued, was indispensable to democracy (Inglehart and Welzel 2005). However, whether [democratic] institutionalism could lead to prosperity without a cultural transition was not queried. Ruparelia (2008) and his politics of recognition in India enforced the constraints on the cultural argument. Whilst the number of independent states quadrupled since 1945, the majority of them are either LDCs (low-income) or DCs (medium-income) (IMF 2011).

Considering the rival explanations of prosperity, scholars of economics, politics, and anthropology appear puzzled about its future. If the path to prosperity lies neither in known economic growth models, nor in democratic institutionalist traditions, or a particular civic culture, per se, then the answer to prosperity must be a rather complex one.

II. Models and their problems

Social learning and lesson-drawing

Schimmelfenning (2012:8-9) argues that the EU seeks to achieve Europeanization beyond Europe through two main mechanisms: externalization and imitation. Externalization is achieved through conditionality, transnational incentives and transnational socialization. Social learning sees the EU as a formal institutionalised actor representing common values and norms. The model advances the appropriateness of rules rather than bargaining about conditions and rewards, persuasion rather than coercion, and complex learning rather than behavioural adaptation in the conduct of the EU with non-EU states. This model is constraint by the persuasive power of the EU, such as its legitimacy, identity, and resonance (Schimmelfennig and Sedelmeier 2004: 675-676).

Imitation is achieved through lesson-drawing where EU norms and rules may become effective for non-EU state's group decision-making processes where EU policies are seen as the appropriate solution to dissatisfaction with the non-member's policy status quo. In this case, policy-makers review policies and rules in operation elsewhere and make a prospective evaluation of their transferability, i.e. whether they could also operate effectively in the domestic context (Schimmelfennig and Sedelmeier 2004: 676 and Rose 1991: 23–4). Schimmelfennig has explained how socialization between states is a process that occurs in different policy areas and through a variety of mechanisms, affecting the way in which key domestic players formulate and implement policies and policy change (Schimmelfennig, 2000). Schimmelfennig and Sedelmeier argue that "whether a state draws lessons from EU rules depends on the following conditions: a state has to (i) start searching for rules abroad; (ii) direct its search at the political system of the EU (and/or its member states); (iii) evaluate EU rules as suitable for domestic circumstances." (Schimmelfennig and Sedelmeier 2004: 676) The argument for the important role of formal (supranational) organisations as agents of socialisation was further supported by Checkel, where he demonstrated how the logic of appropriateness of inter-state co-operation prevailed over any other (Checkel 1998: 326-ff.).

Contexts of EU-ASEAN plurilateralism

The EU-ASEAN plurilateral dialogue touches upon a number of areas, such as political cooperation, economic and trade relations, and ASEAN community-building. The most significant of these areas is economic and trade relations. The EU is the largest home region of Foreign Direct Investment (FDI) to ASEAN with 22% share of the total. Two major initiatives dominate economic and trade cooperation. First, an inter-regional Free Trade Agreement (FTA) was proposed in 2007. Second, the EU offered institutional support to ASEAN for the implementation of the ASEAN Economic Community (AEC) (Nuremberg Declaration 2007:3). Both of these goals were founded on the pre-eminent standing of the EU as a global trade leader (EC/DG Trade Eurostat, WTO) and its history of intensive forms of supranational integration in the internal market and competition (Schimmelfennig 2012:9).

In 2009, the negotiations for a region-to-region Free Trade Agreement (FTA) were abandoned (EC FTA Negotiations: September 2017). Meissner (2016) argued that this failure was rooted in the EU's economic and regulatory power-based approach to ASEAN, which it saw as a cohesive block. The EU interregional approach faced limitations due to ASEAN's heterogeneity. Social learning and lesson-drawing which had occurred between EU and non-EU states, especially in the EU-Central and Eastern Europe FTAs, was informed by conditionality and veto players. Social learning and lesson-drawing was constraint in the main to European transition states, which perceived the FTAs as a stepping stone to EU membership (Finnemore 1993). Therefore, they were likely to accept EU conditionality. This allowed the EU to carry out initiatives in two contexts: (i) democratic conditionality and (ii) acquis conditionality (Schimmelfennig and Sedelmeier 2004: 677).

ASEAN does not impose membership criteria which align with these categories, nor is its network governance model premised on conditionality as a key tool of rules transfer. Indeed, regime governance amongst ASEAN member states is diverse, ranging from 'partly free' to 'not free' regimes (Freedom House/Freedom in the World 2016). This renders the logic of democratic conditionality irrelevant in the EU-ASEAN partnership.

Agarwal and Fogarty advance four hypotheses with respect to the EU interregional motivations: *Firstly*, this is the interest group hypothesis. In this view, those interests best able to impose their pure individual preferences—or the compromise preferences of an aggregated grouping on EU trade policy, whether through superior resources, strategies, political connections, and the like—will see these preferences reflected in EU trade policy toward other regions; *Second*, this is the bureaucratic politics hypothesis. Here, the struggle among the EU's supranational and intergovernmental institutions will determine EU international commercial policy; *Third*, this is the systemic hypotheses. The EU will promote its collective economic security interest as well as its global structural power in ties with individual regions. *Fourth*, this is the constructivist hypothesis. Here, the EU external commercial policies are determined by the overarching need to construct "Europe" (Agarval and Fogarty 2003: 342-344).

Schimmelfennig and Sedelmeier advance a set of five hypotheses in respect of non-EU state's motivations: The *first hypothesis* is that countries adopt EU rules if the benefits of EU rewards exceed the domestic adoption costs. I refer to this hereafter as the *appropriateness hypothesis*. This hypothesis is admissible only if the states know exactly what has to be done in order to get the rewards. The *second hypothesis* proposes that the effectiveness of rule transfer increases if rules are set as conditions for rewards and the more determinate they are. The *third hypothesis* states that the effectiveness of rule transfer increases with the size and speed of rewards. However, this is likely if the state already possesses the necessary implementation capacities. *Hypotheses four and five* respectively propose that (a) the likelihood of rule adoption increases with the credibility of conditional threats and promises, and (b) that the likelihood of rule adoption decreases with the increase in the number of veto-players incurring net adoption costs (such as opportunity costs, welfare and power losses) from compliance. In relation to hypothesis five, chances of rule adoption decrease with the increase in the number of veto-players.

Problems of socialisation

Social models in the EU have been beset for a long time by two fundamental problems. The first is a tendency for externalization (from EU to non-EU), supported by conditionality and veto players. Specifically, appropriateness is determined by the legitimacy and persuasion of rules, but in effect, it is often accompanied by conditionality and herein lays partly the failure of socialisation in the EU-ASEAN plurilateral dialogue. Furthermore, the constructivist hypothesis advanced by Agarwal and Fogarty re-enforces the conclusion by Schimmelfennig (2012:11) that the EU sees itself as the promoter of a liberal model for regionalism, thereby constantly affirming its ontological quality.

This degree of confinement limits the range of responses which the EU can adopt in respect of non-EU members. This rigidity is surprising since it has evolved from the flexible responses to socialisation, which we find in the history of the EU itself: it evolved from top-down (1960-1980) through bottom-up (1985-1997) (Grabbe 1999), to multi-level governance (2004-7). All EU member states are also developed countries. However, when understanding inter-community cooperation as a socialisation process, then this has tended to fall back on conditionality and veto players (Hughes; Sasse and Gordon 2004).

The second fundamental problem of learning follows from the first and, whilst easier to understand, is perhaps more difficult to solve: Is international relations a level-playing field? Historical path dependence informing the dominant realist tradition of the 20th century would refute this suggestion, charging that anarchy is inherent amongst states (Morgenthau 1948). The world since Morgenthau has shrunk to a community through a series of technological advances (Stiglitz 2003). Because of these advances, we can observe clear shifts in power eastwards and southwards from its long-standing anchor in the Western world, so much so that a levelling-out in power dependencies may be in the offing (Sachs 2012). Enduring inter-governmental regional groupings, such as ASEAN (1967), which formed in the post-WWII world to drive development and security amongst developing nations further support this observation. As a result of fundamental shifts in power afoot, regime nesting and mirroring considerations, such as that of the USA by the EU in Asia (Agarwal and Fogarty 2003:373), the EU-Asia (ASEM) dialogue, part of which is EU-ASEAN, has been spurred on. Yet, fundamental initiatives within EU-ASEAN plurilateralism faltered during the Eurozone crisis years, on account of the specific interregional approach that the EU adopted to ASEAN (Meissner 2016). Consequently, what Agarwal and Fogarty described as a ‘pure’ interregional relationship (2003:351) has been weakened through EU bilateralism, hitherto to 2009 reserved for the non-ASEAN members of the ASEM. As the EU-ASEAN FTA was suspended in 2009, the EU intensified bilateral FTA negotiations with Singapore and Vietnam (EC FTA Negotiations: September 2017).

In 2017, both organisations have been tasked anew with re-invigorating the parameters of the EU-ASEAN region-to-region agreement. In light of the attempt to revive the plurilateral dialogue, this paper looks at new opportunities for social learning and lesson-drawing by comparing and contrasting distortions and exit strategies to the Asian and Eurozone financial crises. This should allow the EU to move away from seeing the EU-ASEAN dialogue as its own creation, thus advancing Agarwal and Fogarty’s systemic hypothesis (2003:371). The EU-ASEAN FTA should further satisfy the

Schimmelfennig and Sedelmeier first hypothesis, namely that countries adopt EU rules if the benefits of EU rewards exceed the domestic adoption costs. In this context, Agarwal and Fogarty's assertion that "the general international context—i.e., events that have transformed international politics and the global economy such as globalization,… the Asian financial crisis, … [the Eurozone crises] —is essential to understanding the evolution of interregional regimes. These events are … critical junctures that affect the structure of the system, and thus the likely behaviour of the EU and other actors therein." (Agarwal and Fogarty 2003:371)

III. Two propositions

Both of the Asian and the Eurozone crises share a number of common distortions: (i) credit/consumption growth outstripping economic growth (Goldstein 1998; Indermit and Raiser 2012); (ii) maturity mismatch (Krugman 1999; Ranciere, Tornell, and Vamvakidis 2010); (iii) current account deficits (Goldstein 1998; Holmes, Otero, Panagiotidis 2010); (iv) central banks defending currencies (peg in East Asia; divergence in the EU, as in Wihlborg, Willett, and Zhang 2010); (v) confirmation bias (Baron and Byrne 2004; Oswald and Grosjean 2004); and (vi) regulatory 'race to the bottom' and increased competition of neo-liberal economics (Chang and Velsaco 2000).

The two crises also share some common exit strategies: (i) addressing financials destabilising the greater economy and the quality of pre-existing governance structures (Freedom in the World Index); (ii) austerity as an immediate crisis solution; (iii) fracturing of regionalism into smaller units, as supported through the ideas of new economic geography (Krugman 1991).

By weighing in the entry and exit strategies and their impacts on EU and ASEAN member states (Tables 1, Table 2 and Table 3), two propositions emerge:

(1) Binary measures of democracy do not reflect the impact of externally driven (short/long-term) austerity measures (IMF; ECB) on the change in the quality of institutional governance in the receiving country (e.g. nationalism in Greece and in Thailand; also, Roubini 2014) (Table 1).

Therefore, *democratization is an unlikely avenue of EU 'externalization' in the EU-ASEAN plurilateral partnership*. This is consistent with Meissner's conclusions on the failure of the EU interregional approach to the ASEAN as accounted for by regime homogeneity in the EU versus regime heterogeneity in ASEAN.

(2) Austerity affects most adversely GDP, leading to significant losses across both regions (Table 3) and only a modest ascent in HDI indices (except in Greece, Table 2), whilst also slowing these down during the recovery period (e.g. Sough-East Asia). Therefore, *preventing financial crises is the likeliest avenue for lesson-drawing in the EU-ASEAN plurilateral partnership but only if lesson-drawing can go beyond the scope of EU processes and policies, i.e. where the EU can itself be influenced by broader tendencies and patterns in the international system (Schimmelfenning 2012)*. This supports the *systemic hypothesis* of Agarwal and Fogarty and the *appropriatemess hypothesis* of Schimmelfennig and Sedelmeier.

Table 1: Polity IV democracy score

	1996 (2008*)	1998 (2010*)	2000 (2012*)[2]	2014
Indonesia	0	0	7	n/a
Malaysia	4	4	4	n/a
Philippines	8	8	8	n/a
Thailand	9	9	9	n/a
Greece*	10	10	10	10

Source: Polity IV

[2] Years in parentheses correspond to data for Greece.

Table 2: HDI

	1995 (2007*)	1999 (2010*)	2001 (2012*)	2014
Indonesia	0.662	0.677	0.682	n/a
Malaysia	0.758	0.774	0.790	n/a
Philippines	0.733	0.749	0.751	n/a
Thailand	0.749	0.757	0.768	n/a
Greece*	0.942	0.866	0.860	0.865

Source: The UN Development Programme 2001; 2003; 2009; 2013

Table 3: GDP

	Change in GDP per capita (%)	Years to Recover
Indonesia	-15.0	7
Malaysia	-9.5	6
Philippines	-2.7	3
Singapore	-4.6	2
Thailand	-11.6	5
East Asian average[3]	-8.8	3

[3] Mainland China and Japan are excluded.

Greece	-23.8	N/A[4]

Source: The Reserve Bank of Australia; Eurostat

IV. The South-East Asian crisis in detail

The end of World War II, the process of decolonization and the subsequent assertion of state sovereignty and external non-interference in internal affairs, as well as trade and economic linkages founded on strong personal friendships amongst heads of state and government all colluded to bring about dynamic, powerful and in many cases enviable economic growth and regional development in South-East Asia (SEA). These principles of regional development were developed in practice as the 'ASEAN way' (Bangkok Declaration 1967). Moreover, the rapid industrialisation of Singapore, South Korea, Hong Kong and Taiwan between 1960 and 1990 brought to the world's attention the achievements of the region. Its economies were characterized by intensive growth, which started off with low labour costs, scarce technologies and high capital dependency to rapidly move from an approach of subsistence towards an orientation to exports through neo-liberal policies of export-led trade regimes with rich, highly developed western economies. This brought about other common features, too, namely hybrid and quasi-authoritarian regimes. During the 1970s and 1980s, the East Asian economies developed international production and distribution networks (Ando and Kimura 2005). This resulted in large inflows of foreign direct investment and also brought about significant holdings of bonds. The investments were short-term in the main - speculative cash-flows that were on the rise in the global economy (Bello 1998). This process continued up until the 1990s, as foreign investors were attracted by state-imposed below market interest rates for exporting industries that produced high rates of capital return on investment. Goldstein (1998) shows that high capital inflows allowed firms in emerging Asia to take

[4] As of end-2013, Greece is still in recession.

on large amounts of debt. Table 4 shows that credit growth in the region vastly outstripped economic growth in the period preceding the Asian financial crisis of 1997.

Table 4: Growth in Bank Credit to the Private Sector relative to GDP, %

	1990-1994	1995	1996
Thailand	10.0	11.1	5.8
Indonesia	10.4	4.4	5.7
Malaysia	3.1	10.5	13.1
Hong Kong	8.8	8.9	-6.1
Singapore	0.8	7.8	5.7
Philippines	10.7	27.4	31.5

Source: Goldstein, 1998: 8

Principal trade linkages encouraged many Asian economies to link their exchange rates to the U.S. Dollar, in order to hedge foreign investors against currency risks. In addition to fuelling short-term investment as predictable exchange rates remove some currency risks, making investments more appealing (Radelet and Sachs 1998), currency pegs are problematic in their own right. Agénor et al (1999) describe how the Korean and Thai central banks pegged their respective currencies, the Korean Won and the Thai Baht, to the U.S. Dollar, near what the market deemed fair. However, poor economic performance and a rapidly growing money supply (Table 4) forced central banks to use their foreign exchange reserves to defend the pegs.

Krugman (1999) further notes that the Indonesian Central Bank, fearing the collapse of its de facto peg to the U.S. Dollar had to raise interest rates, reducing the amount of credit available in the economy, exacerbating the liquidity problems posed by the withdrawal of foreign capital. While this may seem irrational, Krugman explains that East Asia's central banks believed that a collapse of currency pegs and managed exchange rates would lead to a crisis of investor confidence so great that their respective national (if not regional or global) financial system would be imperilled. Meanwhile, short-term investments and bank deposits were used to finance long-term projects, creating a maturity mismatch. Such mismatches are hazardous as they give investors the opportunity to withdraw funds before the returns are realised, unable to repay the creditors. In some instances, the fear of non-repayment alone motivates withdrawals, in a phenomenon resembling a bank run.

Owing to the non-democratic governance regimes that arose in SEA, assets were devolved to certain people only, not necessarily best suited or most efficient, yet closest to the centre of power. The continuous use of foreign capital for short-term investment and the subsequent difficulty of the private sector to re-pay debt led to currency fragility. In turn, this brought about more economic dependency with high risks of inflation. The political weaknesses in large states in the region, such as Indonesia and Malaysia, compounded their inability to reign in the situation as it was developing. The lack of control and regulation facilitated the easy transfer of assets, which led to high volatility in capital markets. Moral hazard led to over-investment, excessive borrowing and ultimately to current account deficits (Corsetti, Pesenti and Roubini 1998). Credit rating agencies, having failed to predict the East Asian crisis, aggravated it. This unduly exacerbated the cost of borrowing of SEA countries abroad and caused the supply of international capital to them to evaporate. In turn, lower than deserved ratings contributed – at least for some time – to amplify the East Asian crisis (Corsetti, Pesenti and Roubini 1998).

The external financial climate triggered a brewing situation by quickly worsening the effects of delay and the spread of disease and contagion in economies across the region. The US economy was recovering from the recession of the early 1990s. The Federal Reserve initiated a series of raises in interest rates to head off inflationary pressures in the US economy. For South-East Asian countries, which had their currencies pegged to the US dollar, the rise in interest rates, coupled with the appreciation of the U.S. Dollar in currency markets caused their exports to become less competitive in the global trade markets. The resulting panic amongst lenders led to a large withdrawal of credit from the SEA countries, leading to a credit crunch, loss of liquidity in the markets and an amalgam of bankruptcies.

To overcome the financial crisis, the International Monetary Fund (IMF) created a series of rescue packages for the worst affected SEA countries. These packages were linked to drastic national structural reforms to reduce fiscal burdens through the so-called Structural Adjustment Programmes (SAPs). The riggings of SAPs were supposed to reduce both government spending and deficit, and allow banks and financial institutions, burdened by the dramatic rise in interest rates, orderly defaults. This intervention was driven by the desire to aid in liberal market growth in order to benefit foreign investors above and beyond the crisis countries themselves. As a result, South-East Asia suffered permanent currency devaluation, numerous defaults, a dramatic rise in unemployment and a real estate melt-down (Table 2 and Table 3). In this, the role of the IMF remained controversial. Bad banking, financial bubbles, unsound macro-management, financial under-regulation of global capital flows and speculative attacks, as well as self-fulfilling panic in international capital markets have long been identified as the combined explanation for the Asian financial crisis (Bustelo 1998).

V. The Eurozone crisis in detail

The Eurozone crisis started off as a financial crisis triggered by events beyond. Financial growth in the EU began showing signs of significant slow-down with the collapse of the subprime mortgages system in the USA (Federal Housing Finance Agency). Banks, through securitization, re-sold loans to other financial market operators, thus spreading the risk of disease and contagion while expanding their activities disproportionally relative to their equity capital. For example, in the US the leverage reached values equal to 30 times the equity capital, while in Europe values were even higher (Bhatia and Bayoumi 2012). This generated extraordinarily high short-term profits, but also and, critically so, embedded within the system disproportionally high risk levels. Thus, a loss of 5% was equal to 1.5 times the equity capital (Federal Housing Finance Agency).

This excessive securitization of loans was facilitated by the fact that credit rating agencies, similar to the Asian financial crisis, had failed to predict the extent of the markets' looming predicament. They underestimated the perils from subprime mortgages investment, optimistically considering financial markets predictable and able to sufficiently correct themselves. This environment bread a breach of trust in the inter-banking lending market, which in turn triggered the brakes on loans and credit to consumers, bringing about an extraordinary crisis of liquidity.

There were several consequences of this event. First, banks sold more bonds, in order to attain required levels of stock and liquidity, but in the process they decreased the value of bonds and reduced the number and size of loans being lent to consumers. Second, the loss of bond value made the stock market freeze, which generated a vicious cycle, whereby financial institutions could no longer re-stock from the markets, nor could they stock up from the 'real economy' that was slowing down at a very fast rate as the lack of credit had stalled consumption, leading to a dramatic decline in production and employment, and cumulatively, to loss of GDP. What started off as a financial crisis outside of the European Union, turned into a Eurozone crisis through the vast interdependence that over sixty years of economic and political integration had generated amongst EU member states. This was compounded by a decline in international trade by 12.2%, especially harshly afflicting those states heavily dependent on exports and having at the same time floating currency regimes (World Trade Organization, press release 598/26.03.2010).

Giavazzi and Spaventa (2011) explain that the introduction of the Euro as the common Eurozone currency unified vastly different financial markets and allowed the savings of Northern Europe to be channelled southwards. These capital flows could only happen in a monetary union because a common currency removed the risk of exchange rates from decisions to invest. Therefore, states with currency pegs, as the lessons from the Asian Financial crisis show, are seemingly more vulnerable to drastic shifts as the pegs collapse. By comparison, a single currency was thought to give permanent stability. Moreover, unlike in Asia, capital inflows to Southern Europe were absorbed primarily the public sector. This trend is illustrated in Table 5.

Table 5: Government Budget Balances as a percentage of GDP

	Average 2000-2007	2008	2009
Eurozone Average	-2.3	-2.0	-6.3
Ireland	-1.0	-7.3	-14.3
Greece	-6.1	-7.7	-13.6
Spain	-1.3	-4.1	-11.2
Portugal	-4.1	-3.7	-7.1
Italy	-3.1	-2.7	-5.3

Data from Giavazzi and Spaventa 2011: 200

After 2008, the confidence in the EMU paradigm of the 1990s showed signs of weakness. Wihlborg, Willett, and Zhang (2010) argue that the Eurozone's problems can be traced back to currency problems. They show that prices have not converged in the Eurozone, indicating that the EMU members were too diverse and ought not to have shared a currency at that time.

Against such considerations, the European Central Bank (ECB) has been, for the most part, concerned with interest rate reductions, monetary expansions and the re-financing of 'bad' loans. Yet, after years of policies of austerity, it has become clear that these were insufficient. In order to stimulate demand in the 'real economy', governments undertook to guarantee bonds by recapitalizing and in some instances by even nationalizing financial institutions. Such measures brought about an uncontrolled rise in public debt in the peripheral economies of regions, such as SEE[5], undermining the EMU convergence criteria.

EU public debt is in many instances very high almost a decade after the crisis began[6]. Budgetary deficits have become commonplace[7]. National governments continue to be on the look-out for an exit strategy. In the meantime, the real value of consumer assets continues to erode[8], leaving areas of the European continent, such as the periphery of South-East Europe, stagnant, a phenomenon not unlike that occurring in South-East Asia after concerted policy of fiscal austerity in the aftermath of the 1997 crisis (Table 3).

VI. Conclusion

Demirgüç-Kunt and Detragiache (1998) note that financial crises are often caused by weak economies. Specifically, they show that low growth and high inflation can weaken companies' balance sheets. Additionally, high inflation will make a bank's loan books less valuable in real terms. Financial crises destabilize the greater economy, suppressing demand and causing otherwise solvent firms to fail. Further econometric and statistical work by Kaminsky and Schmukler (2003) shows that in the short-term, financial deregulation makes both booms and busts more dramatic. In short, a bad economy can cause a financial crisis and a financial crisis can cause a bad economy (Krugman 1999). The common distortions which informed the Asian financial crisis and the Eurozone crisis need not have led to common exit strategies. The systemic hypothesis of Agarwal and Fogarty and the appropriateness hypothesis of Schimmelfennig and

[5] Eurostat, Public Balance and General Government Debt , 2008-2011

[6] Eurostat, state and local government debt

[7] Eurostat, government deficit/surplus, debt and associated data

[8] For example, the rate of growth in housing prices falls behind the rate of inflation. For reference, see: Eurostat, inflation rate annual (http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&language=en&pcode=tec00118&tableSelection=1&footnotes=yes&labeling=labels&plugin=1)

Eurostat, prices, main tables, housing (http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=teicp040)

Notable exception: Bulgaria

Sedelmeier have led this paper to propose that EU externalization in the incidence of its interregional approach to ASEAN is focused on preventing financial crises by expanding imitation (lesson-drawing) beyond EU processes and policies. The failure to do so during the Eurozone crisis period has led to the waning appeal of the EU-ASEAN FTA instead, rendering the interregional approach ineffective, whilst falling back on EU bilateralism in SEA.

To overcome the financial crisis in SEA, the IMF created a series of rescue packages for the worst affected countries. The Structural Adjustment Programmes, which were designed to reign in the meltdown in the region, were linked to drastic national structural reforms. The policy of austerity engineered by the IMF had a long-lasting negative social impact (Stiglitz 2003). The Eurozone exit strategy through the Stability Support Programmes, led by the European Stability Mechanism and supported by the IMF, has had a similar long-term negative social impact, as evidenced by the comparative data of impacts of financial crises from ASEAN and the EU (Table 2, Table 3, Table 5).

Compared to the SEA plan of 1997, the Eurozone approach after 2008 was characterized by more emphasis on ownership and collaboration amongst stakeholders, more realistic assumptions, less asymmetric access to information and a greater flexibility in policies and policy implementation. Relative to national GDP, the EU 'aid-packages' are about three to five times the size of the SEA crisis ones, in some instances even more. The European recovery plan is largely focused on a policy of guarding off high interest rates. The purpose behind this is to stabilize the exchange rate to the euro, avoiding the currency traps of the Asian financial crisis. In the case of the Asian crisis, the IMF underestimated the impact of depreciating currencies. The IMF neglected the severe contraction in the output growth rate, believing that depreciations would support exports. In actual fact, it worsened the balance sheets of South-East Asian countries. In addition, the tight contraction of public spending and the consequential increase in taxes crippled the private sector, leading to wide-spread insolvencies.

Asymmetric access to information often dominates the markets. This is why tracking the composition of capital flows as well as of long-term investments matters. Excessive capital dependency and lack of regulation, above all in the transferability of capital, not only generates a position of hegemony of the strongest countries vis-a-vis the weaker ones, but also puts the latter at greater risk, considering the volatility of capital flows. Socialisation in the EU-ASEAN plurilateral dialogue should, thus, aim to revive the FTA by modifying the EU approach to interregionalism, whilst slowing down EU bilateralism in ASEAN. This requires an overhaul of the socialisation approach of the EU, such that allows for flexible imitation in the incidence of plurilateral discourses, such that the EU can itself be influenced by broader tendencies and patterns in the international system. This paper concludes that the arising EU interregional approach should in this way advance the Agarwal and Fogarty systemic hypothesis whilst guarding against financial crises in promoting interregionalism and the EU global standing, and simultaneously re-enforce the Schimmelfennig and Sedelmeier appropriateness hypothesis, in order to maintain the global appeal for advanced regional forms of supranational integration, such as the EU formulated in the Nuremberg Declaration of 2007 in respect of ASEAN.

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