

# **An Output Perspective on a Northeast Asia Currency Union**

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## **Summary**

The 1997 financial crisis offers a catalyst for Asian economies to promote economic cooperation and coordination. The current exercise considers the prospect of creating a currency union that comprises China, Japan, and Korea. It is found that the three countries have synchronous output movements at both long-run and short-term horizons. Further, the estimated output loss appears to be less than the potential benefit from forming a currency union. It is also noted that the three countries have considerably intensified their trade and investment interactions since the 1990s. These results are quite encouraging and supportive of the idea that China, Japan, and Korea should join forces to form a currency union and promote their common economic interests.

While the empirical evidence is in favor of establishing a currency union, it is noted that there are both economic and non-economic reasons that the tri-lateral economic cooperation may run into obstacles. However, the trend towards enhanced economic integration is reinforced by the growing of regionalism, the shadow of the 1997 financial crisis, and the increasing importance of intra-regional trade. It is perceived that the process of economic integration will be long and involved despite the bright promise of close economic cooperation.