

# **The Suitability of A Greater China Currency Union**

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## **Summary**

Greater China, which consists of China, Hong Kong and Taiwan, is one of the most dynamic regions in the world. The three Greater China economies have experienced a rapid pace of integration since China launched economic reforms two decades ago. Among other things, the integration process is fostered by their common history, culture, and language, and the extensive kinship network in the three economies. This paper assesses the current level of integration and investigates whether the three Greater China economies are suitable for a currency union. Currently, the three economies have extensive trade and investment linkages and these linkages are likely to be strengthened over time. Our analyses show that these economies share common long-run and short-run cyclical variations. The potential output costs of relinquishing policy autonomy seem to be moderate and are likely to be less than the efficient gains derived from a currency union arrangement. These results are supportive of the notion of a Greater China currency union. Despite the encouraging results, some hurdles to the adoption of a single currency are anticipated. For instance, there is a redistribution issue in forming a currency union because of costs and benefits of forming one are distributed unevenly across these economies.