

# **A Renminbi Block for East Asia? A Re-evaluation of Business Cycle Co-movements**

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In the East Asian region, the predominant role of the USD is increasingly being challenged by the RMB. Furthermore, international trade with China has increased substantially. Against this backdrop, various types of new currency arrangements have been discussed, up to fixed exchange rates in an RMB currency bloc. This paper re-evaluates earlier literature that draws upon the classical criterion of optimal currency areas. It analyzes co-movement in quarterly real GDP data for China and 10 East Asian countries from 2000Q1 to 2021Q1. Contributions to the literature lie in the consideration of the seasonality of GDP data and the joint modeling of common cycles and common seasonal factors. The results reveal very little evidence of synchronized cycles; only at higher orders does some evidence of codependence exist for Korea, Hong Kong and Taiwan, which contrasts with earlier studies using de-seasonalized data that found more evidence of common cycles.

**Keywords:** Codependent Business Cycles, Serial Correlation Common Feature, Seasonality, Renminbi internationalization, Optimum Currency Area

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