A disaggregated approach to test the J-Curve phenomenon: Japan versus her major trading partners

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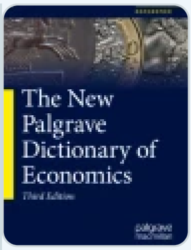
Abstract

A limited number of studies have tested the J-Curve phenomenon using bilateral trade data between the United States and its major trading partners. In this paper, we test the J-Curve hypothesis by using quarterly bilateral data over the 1973–98 period between Japan and its nine major trading partners. We demonstrate that when aggregate data are used, there is no evidence of the J-Curve in the short run or any significant relation between trade balance and effective exchange rate in the long run. However, when bilateral data are employed, we find evidence of the J-Curve between Japan and Germany as well as between Japan and Italy. We also find that real depreciation of the yen has favorable long-run effects in the cases of Canada, the United Kingdom, and the United States.



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