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The J-curve: evidence from commodity trade between US and China

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Abstract

In testing the short-run (J-curve effect) and the long-run effects of currency depreciation

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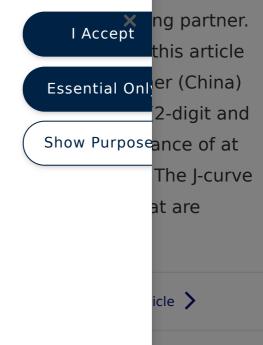
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Notes

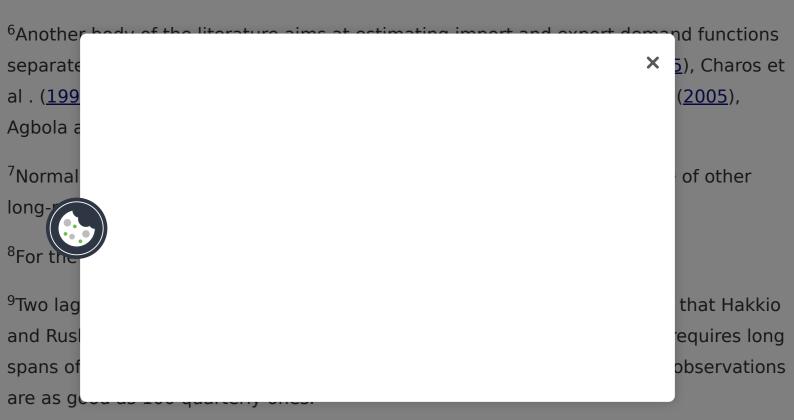
¹Other studies that have used aggregate trade data to address different issues related to the trade balance are Briguglio (<u>1989</u>), Tegene (<u>1991</u>), Vamvoukas (<u>1999</u>), Miljkovic et al. (<u>2000</u>), Bahmani-Oskooee (<u>2001</u>), Dar and Amirkhalkhali (<u>2003</u>), Dutta and Ahmed (<u>2004</u>) and Berument and Dincer (<u>2005</u>).

²See Rose and Yellen (<u>1989</u>, p. 58).

 3 Marwah and Klein (<u>1996</u>), Rahman et al. (<u>1997</u>), Bahmani-Oskooee and Brooks (<u>1999</u>) and Kyereme (<u>2002</u>) are examples of other studies that used bilateral data.

⁴For an anlysis of the impact of value-added tax on trade at commodity level see Rousslang and Van Leeuwen (<u>1990</u>) and for the impact of antidumping policies on the trade balance see Mah (<u>2000</u>).

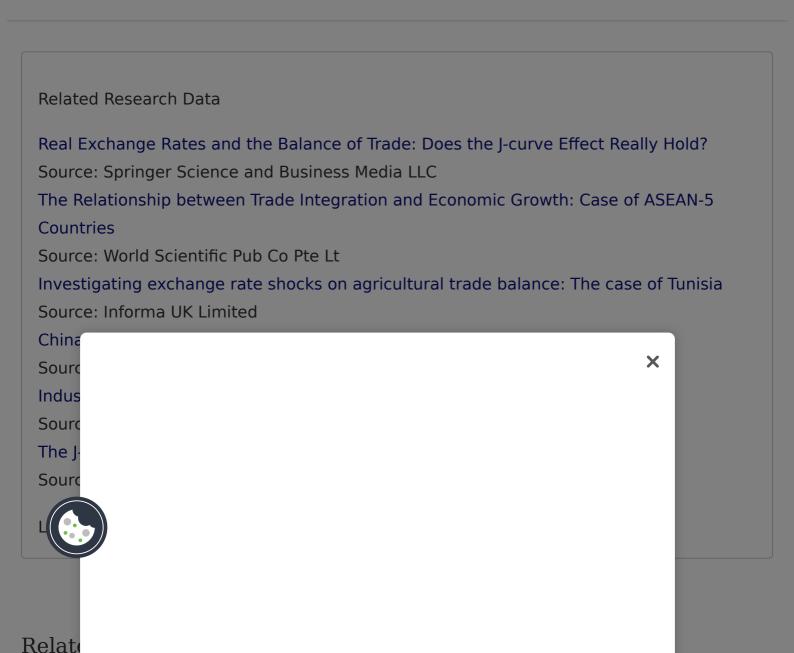
⁵Unlike other four studies in the group, Brada et al . (<u>1993</u>) who used Johansen's cointegration technique showed that there is at most one cointegrating vector among the trade balance, real effective exchange rate, and income variables. However, following Cheung and Lai (<u>1993</u>), when their trace and λ-max statistics are adjusted, cointegration disappears.



¹⁰These industries are coded in Table 2 or 3 as: 21, 61, 611, 64, 642, 65, 651, 656, 75, 751, 76, 77, 772, 774, 775, 778, 87, 874, 88, 881, 885 and 893.

 ^{11}To provide additional and strong support for cointegration, we use estimates of $\lambda_1-\lambda_4$ and form an error-correction term EC. We then replace the linear combination of the lagged level variables by the lagged EC and estimate model (4) after imposing the optimum lags. A negative and significant coefficient obtained for EC_{t-1} will support cointegration. These results are also reported in Table 2 and they do indicate that cointegration is supported in all but four cases.

¹²More precisely, the dummy was positive and significant in industries numbered 05, 057, 51, 515, 516, 54, 551, 656 and 897. It was negative and significant in industries 21, 641, 642, 663, 692, 74, 764, 893 and 894.



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