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Is there J-Curve effect in Africa?

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Abstract

The J-Curve is a term used to describe the post-devaluation behavior of the trade balance, i.e., initial deterioration followed by an improvement. Previous research has tested the phenomenon for many developed and developing countries. However, African nations have not received any attention on this regard. In this paper, we test the hypothesis for nine African countries of Burundi, Egypt, Kenya, Mauritius, Morocco, Nigeria, Sierra Leone, South Africa, and Tanzania for which quarterly trade data were available. After using the bounds testing approach to cointegration and error-correction modeling, we were unable to find any support for the J-Curve.

Keywords:

Africa | the J-Curve | bounds testing approach to cointegration

JEL Classification:

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Notes

1. This definition would only be true if the trade balance and the real exchange rate are defined in a way that a positive relation between the two reflects an improvement in the trade balance due to real devaluation or real depreciation.

2. Note that the Bounds testing methodology here closely follows Bahmani-Oskooee and Kara (2003) in this journal. See also Bahmani-Oskooee, Economidou, and Goswami (2005) and Bahmani-Oskooee, Goswami, and Talukdar (2008).

3. Note that if the increase in domestic income is due to an increase in the production of goods that are close substitute for imports, a country could import less. In this case the estimate of β could be negative. By the same token, an estimate of γ could be positive. For more see Bahmani-Oskooee (1986).

4. We also employed Schwarz Bayesian Criterion (SBC) in selecting optimum lags. There were no significant changes in the results.

5. For some examples of these studies on the elasticity approach see Agbola and Damoense (2005), Narayan and Narayan (2005), and Truett and Truett (2000).

6. A table is available upon request from the authors showing exact partners for each country.

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