

## U.S. Trade and Trade Balance with China: Testing for Marshall-Lerner Condition and the J-Curve Hypothesis

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**Abstract :** The U.S. has a very strong trade relationship with China but with a large and persistent trade deficit. Some has argued that the undervalued Chinese Yuan is to be blamed for the persistent trade deficit. The empirical results are mixed at best. This paper empirically estimates the U.S. export function along with the U.S. import function with its trade with China with the purpose of testing for the existence of the Marshall-Lerner (ML) condition as well for the possible existence of the J-curve hypothesis. Annual export and import data will be utilized for as long as the time series data exists. The export and import functions will be estimated using advanced econometric techniques, along with appropriate diagnostic tests performed to examine the validity and reliability of the estimated results. The annual time-series data covers from 1975 to 2022 with a sample size of 48 years, the longest period ever utilized before in any previous study. The data is collected from several sources, such as the World Bank's World Development Indicators, IMF Financial Statistics, IMF Direction of Trade Statistics, and several other sources. The paper is expected to shed important light on the ongoing debate regarding the persistent U.S. trade deficit with China and the policies that may be useful to reduce such deficits over time. As such, the paper will be of great interest for the academics, researchers, think tanks, global organizations, and policy makers in both China and the U.S.

**Keywords :** exports, imports, marshall-lerner condition, j-curve hypothesis, united states, china

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