

An Investigation of Invoice Currencies using Japan's Trade Statistics

By Masanori Ono

〈SUMMARY〉

This paper empirically examines commodity-level data for Japanese imports from Korea and investigates which currencies are used as invoicing currencies in the international commodities trade. One could argue that either the exporter's or importer's currency is chosen as an invoicing currency. However, a third currency (namely, the U.S. dollar), known as a vehicle currency, is used in much of the trade between Asian countries. Theoretical investigations in this area use a framework of monopolistic competition in international trade. To examine whether or not the theoretical implications match empirical results, this paper uses data for bilateral trade by commodity and develops methods for detecting which currencies are used as invoicing currencies in international trade. Finally, this paper suggests that microinstitutional features of commodity trade — known as Rauch's (1999) classification—are important factor to explain the choice of invoice currency in the international trade. Specifically, Fukuda and Ono's (2005) theoretical predictions fit markets for differentiated products while McKinnon's hypothesis holds for organized exchange commodities.

© Japan Society of Monetary Economics 2009