

Export Experience and the Choice of Invoice Currency: Evidence from Questionnaire Survey for Japanese SMEs

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Abstract: This study examines determinants of the invoice currency with the focus of the effect of export experience based on the questionnaire survey for Japanese small and medium enterprises (SMEs). Our empirical analysis provides the following findings. First, producer currency pricing (PCP) is more likely to be chosen when the invoice currency is mostly chosen by the exporter (i.e. the exporter has dominating bargaining power). We also find that PCP is more likely to be chosen when SMEs export through trading companies. Second, conditional on cases where SMEs started exporting under PCP, exporters who have longer experience of exporting tend to switch the invoice currency from Japanese yen (i.e. PCP) to foreign currencies (foreign currency pricing, FCP). The interpretation is that well experienced exporters have know-hows to deal with the exchange rate risk and can choose FCP so that they accept large demand from their customers. It is also found that exporters who have larger bargaining power or whose main bank is not a city bank tend to sustain PCP.