Preface

This book is a result of almost 10 years’ collaborative work by four researchers: Takatoshi Ito, Satoshi Koibuchi, Kiyotaka Sato and Junko Shimizu (in alphabetical order). The joint project on pass-through research started when Takatoshi Ito, then Professor at the University of Tokyo, created a research group at the Research Institute of Economy, Trade and Industry (RIETI). In the beginning the group traced an existing study using macro data that are publicly available from ministries. We presumed that invoicing in the yen would be increasing as capital controls are dismantled and competitive Japanese exporters would benefit from insisting on invoicing in yen, at least when they exported to Asian countries. However, we could not see a significant increase in yen invoicing.

We wanted to use micro data to understand how invoicing currency was chosen. However, it turned out that micro data at customs were not available for academic purposes in Japan. Soon after we discovered this data problem, we decided to conduct some interviews at representative Japanese exporters. Samples would be small and we were not sure whether we would be able to gain any interesting insight, let alone data for analysis. However, the interviews provided us with quite interesting results. Those in charge of export contracts (in many cases in the treasury department of a company) were able to explain why they chose a particular currency for invoicing depending on trading partners, destinations and products. One observation we obtained at an early stage was that they tend to use the US dollar for exports to Asia because they are exporting parts and components to their production subsidiaries that assemble goods (say, digital cameras) and export to the US. Exports to the US are invoiced in US dollars, and given that, exports from the Japanese head office (or mother plant) to subsidiaries in Asia are also invoiced in US dollars to avoid subsidiaries suffering from a currency mismatch of inputs and outputs. Another observation we made was that multinational companies had to manage currency risk of various currencies and it makes sense for them to consolidate it in their own global treasury company. In this case, it does not matter whether they trade in the yen or the US dollar, but they can manage world-wide currency risks by using their multi-currency cash pooling system.

The interviews with large companies were very helpful to us in
understanding the determinants in choosing invoice currency. But the number of samples would have been quite limited if we had stuck to face-to-face interviews. We decided to opt for sending a questionnaire to a large number of companies. We were keenly aware of the drawbacks of such a survey – a low response rate, a sampling bias and unreliability of answers – but we thought the benefits would outweigh these disadvantages. We were careful not to cause a sampling bias by setting objective criteria regarding to whom the questionnaires should be sent. We also made efforts to raise the response rate.

We were fully aware that a research method based on questionnaires is off-the-mainstream in economics. However, when important information is not available from publicly available sources, this is the second best method and it should be respected. Fortunately, there were two earlier papers based on questionnaires in the literature on pass-through.

We conducted four questionnaire surveys, twice to Japanese headquarters, in 2009 and 2013, and twice to their subsidiaries in the world, in 2010 and 2014. We obtained a large enough number of responses to conduct regression analyses. We are confident that our questionnaire surveys provide very important and interesting insights on the invoicing currency behaviour of Japanese exporters.

We have written journal articles and working papers on each of the questionnaire surveys. We have received a great deal of encouragement and praise for our work. We soon realized that analysing all the surveys in one volume would be quite important for academic research for policy makers in Japan and other countries. So, this book is a result of our hard work with a research method that was not quite mainstream. We think we have gained a great deal of important insight that would not even have been obtained using micro data collected by the customs authorities. We are now hoping that prejudice against the questionnaire method may be dispelled after this work.