

Exchange Rate Appreciation and Export Price Competitiveness: Industry-specific Real Effective Exchange Rates of Japan, Korea and China*

Kiyotaka Sato[†],
Junko Shimizu[‡],
Nagendra Shrestha[§],
Shajuan Zhang^{**}

This paper constructs a new data set of the industry-specific real effective exchange rate (REER), based on the producer price indexes, of the Japanese yen, Korean won and Chinese renminbi at a daily basis from 2005 to the present in order to provide a better indicator for international price competitiveness of three countries. We also investigate the recent trend of export and import price indices in both domestic and contract currency terms especially in Japan and Korea, and provide empirical evidence of the exchange rate pass-through/pricing-to-market. It is revealed that a substantial fall of domestic producer prices has enhanced the Korean firms' export competitiveness compared to the Japanese one especially in the electric machinery industry. A small degree of exchange rate pass-through in domestic prices as well as the US dollar invoicing trade with large nominal depreciation has also increased the relative export competitiveness of Korean firms to the Japanese counterparts.

JEL Classification: F31, F33, F15

Keywords: Real effective exchange rate (REER), industry-specific exchange rate, export competitiveness, exchange rate pass-through

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[†] Corresponding author: Department of Economics, Yokohama National University, Email: sato@ynu.ac.jp

[‡] Faculty of Economics, Gakushuin University.

[§] Center for Economic and Social Studies in Asia (CESSA), Department of Economics, Yokohama National University.

^{**} International Graduate School of Social Sciences, Yokohama National University.