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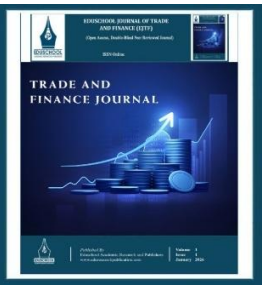

Does a Strong Dollar Shrink World Trade? Reconciling the Pricing and Financial Channels of Dollar Transmission

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Abstract

A weaker currency is supposed to raise exports. For most of world trade it does not, and the reason is now well understood in two separate literatures that have not been reconciled. The first holds that export prices are set in a single dominant currency, so that bilateral depreciation delivers little expenditure switching and what matters is the exporter's currency against the dollar. The second holds that the dollar is a barometer of global credit conditions, so that appreciation contracts the balance-sheet capacity of dollar-funded lenders and reduces the working capital on which trade runs. This article synthesises both literatures, evaluates their empirical claims against each other rather than in isolation, and argues three things. First, the mechanisms are separable on evidence already available, because they carry distinct signatures in destination composition, time profile, and cross-sectional incidence, and the destination test is decisive: the pricing channel predicts no contraction in exports to the United States, while the credit channel predicts contraction there too, and the observed contraction in United States-bound exports is therefore diagnostic. Second, the field's headline estimates are composites of the two mechanisms, weighted by an unmeasured and country-specific mix of invoicing dollarisation and funding dollarisation, which means they are not stable parameters and should not be used as such in forecasting or policy calibration. Third, the policy implications diverge sharply and are currently conflated: local currency settlement initiatives target the pricing channel alone, and in a world where firms may invoice in one currency while funding in another, such initiatives can reduce measured trade exposure to the dollar while leaving balance-sheet vulnerability essentially untouched. The article closes by specifying what evidence would settle the open questions and why existing data fall short of it.

Keywords: - Dominant Currency Pricing, Invoicing Currency, Broad Dollar Index, Global Financial Cycle, Export Elasticity, Currency Mismatch, De-Dollarisation, Emerging Markets.

I. INTRODUCTION

Few propositions in applied economics have been repeated as often, or acted on as confidently, as the claim that currency depreciation raises exports. It underwrites competitive devaluation, currency war rhetoric, a substantial portion of International Monetary Fund programme design, and the intuition of finance ministries across the developing world. The mechanism is expenditure switching: a cheaper domestic currency lowers the foreign-currency price of domestic goods, foreign buyers substitute towards them, and export volumes rise.

The mechanism depends on an assumption that is false for most of world trade. Prices are not set in the producer's currency. They are set overwhelmingly in one dominant currency, the United States dollar, in transactions that frequently involve no United States counterparty at all. The scale of this asymmetry is easily stated. Dollar invoicing in world imports runs at roughly 4.7 times the share of United States goods in those imports, whereas the equivalent ratio for the euro is approximately 1.2, and dollars constitute about 62 percent of the foreign currency local liabilities of non-United States banks (Gopinath & Stein, 2021). Comprehensive panel data covering 115 countries since 1990 confirm both the dollar's dominance and the remarkable stickiness of invoicing patterns over three decades (Boz et al., 2022). On the financial side, the dollar sits on one side of the large majority of foreign exchange transactions (Bank for International Settlements, 2022).

Once producer currency pricing is abandoned, the textbook prediction does not merely weaken. It can reverse. Two literatures have documented this reversal by different routes, and the substance of this article is that they have documented different things.The first, which may be called the pricing literature, establishes that under dollar invoicing the relevant exchange rate for trade quantities is the exporter's currency against the dollar rather than against the destination currency, and that the strength of the effect rises with the dollar invoicing share (Gopinath et al., 2020). The mechanism here is fundamentally about an absence. Expenditure switching does not happen because the invoice price has not moved. On its own this predicts muted responses to bilateral rates, not contractionary ones.

The second, which may be called the financial literature, supplies the contractionary force. The dollar functions as a barometer of global credit conditions because internationally active banks fund substantially in dollars and their risk-taking capacity moves inversely with dollar strength (Bruno & Shin, 2015). Following dollar appreciation, exporters more dependent on dollar-funded bank credit experience a contraction in credit and a slowdown in exports, including exports destined for the United States (Bruno & Shin, 2023). That last detail is the crux of this article's argument and is developed in Section 5.

These two accounts are typically described as complementary, and they are. But complementarity has been allowed to substitute for decomposition. The field reports composite elasticities and interprets them within whichever framework the authors are working in, while the relative weight of the two mechanisms is treated as though it were a global constant. There is no reason to expect that it is. A commodity exporter with near-universal dollar invoicing and shallow domestic credit markets occupies a different position in the parameter space from a manufacturing exporter with deep bank intermediation and diversified invoicing, and the two will respond differently to the same dollar movement for reasons that have nothing to do with sampling error.

The question has become urgent rather than merely tidy. Invoicing shares, long the most inert series in international macroeconomics, have begun to move, and the movement correlates with geopolitical alignment rather than with trade fundamentals alone (Boz et al., 2025), within a wider reorganisation of trade and financial linkages along bloc lines (Aiyar et al., 2023). If the pricing channel's strength is a function of the dollar invoicing share, and that share is now changing, then elasticities estimated under three decades of invoicing stability will misforecast. Whether the financial channel moves in step is a separate question with a non-obvious answer, and Section 7 argues that it probably does not, at least not on the same timescale.

This article does three things. Section 3 sets out why one currency dominates and why dominance in trade and dominance in banking are one phenomenon rather than two. Sections 4 and 5 assess the pricing and financial literatures on their own terms and extract their quantitative claims. Section 6 confronts them with each other and argues that they are separable on evidence largely already collected. Sections 7 through 9 examine the stability question, identify what the evidence cannot currently settle, and draw the policy distinctions that the conflation of the two channels has obscured.

II. METHOD OF THE REVIEW

The corpus was assembled through a structured search across EconLit, Scopus, Web of Science, RePEc/IDEAS, SSRN, and the working paper series of the International Monetary Fund, the Bank for International Settlements, the European Central Bank, and the Federal Reserve System. The search combined three term blocks: first, "dominant currency" OR "invoicing currency" OR "currency of invoicing" OR "dollar exchange rate" OR "broad dollar"; second, export OR trade OR "trade volumes" OR "pass-through" OR "trade elasticity"; third, credit OR "bank funding" OR "financial channel" OR "currency mismatch" OR "global financial cycle". The first two blocks were required conjunctively; the third delimited the financial-channel sub-corpus.

The window ran from 2001 to 2026. The start point is not arbitrary: Rey (2001) established the network-externality foundation on which the subsequent currency-dominance literature is built, and studies before that date address a different question, namely optimal currency choice under exogenous market structure rather than the endogenous emergence of dominance.

Inclusion required peer-reviewed publication or circulation in a recognised institutional working paper series, empirical or formal-theoretical content, and an identified mechanism linking currency to trade quantities rather than to prices alone. The last criterion excluded a substantial pass-through literature that is informative about price setting but silent on the volume responses at issue here. Purely descriptive reserve-composition studies and forecasting exercises without a structural mechanism were also excluded. Backward and forward citation chaining was applied to the ten most-cited retained items, which added several central contributions that keyword search alone missed, notably the working capital literature.

Because this is an interpretive synthesis rather than a meta-analysis, no effect-size pooling was attempted. Pooling would be inappropriate here for a substantive reason as well as a statistical one: the estimates in the corpus are not noisy measurements of a common parameter but measurements of different parameters in populations with different exposure mixes, which is precisely the argument of Section 6.

III. WHY ONE CURRENCY DOMINATES, AND WHY THAT MATTERS TWICE

3.1. The Coordination Foundation

Currency dominance is a coordination equilibrium sustained by network externalities. A currency is attractive to invoice in because others invoice in it, which generates thick markets, low transaction costs, and low hedging costs, which in turn makes it more attractive still (Rey, 2001). The equilibrium is self-reinforcing and therefore both stable and, in principle, multiple: nothing in the logic identifies which currency occupies the position.

Historical evidence supports the network account and clarifies its boundaries. In oil markets, where goods are homogeneous and the incentive to quote in the same unit as competitors is sharpest, network effects operate strongly and switching is correspondingly rare (Eichengreen et al., 2016). Firm-level evidence establishes that invoicing is a deliberate

strategic choice rather than an inherited convention: firms with larger imported input shares and those whose competitors invoice in dollars choose dollars themselves, and the choice materially alters both their pass-through and their exposure to exchange rate movements (Amiti et al., 2022). Bargaining-theoretic accounts locate the same choice in the relative market power of exporter and importer (Goldberg & Tille, 2016). The euro's persistent failure to contest dollar dominance despite broadly comparable economic fundamentals is exactly what the coordination logic predicts, and is difficult to explain on fundamentals alone (Ilzetzki et al., 2020).

3.2. The Link that Makes Dominance a Single Phenomenon

The contribution that transforms this from a trade story into a macro-financial one is Gopinath and Stein (2021). Their framework establishes that a currency's role as a unit of account for invoicing and its role as a safe store of value are mutually reinforcing rather than independent. Firms invoicing in dollars want dollar-denominated safe assets to hedge their receivables, which deepens the market for dollar safe claims and lowers the cost of dollar funding, which strengthens the incentive to invoice in dollars. The safe-asset premium that this mechanism relies upon is independently documented (Krishnamurthy & Vissing-Jorgensen, 2012).

Two consequences are decisive for what follows. First, firms in emerging market economies endogenously accept currency mismatch by borrowing in the dominant currency, and they do so as an equilibrium outcome rather than through error. Second, and more importantly for the argument of this article, dominance in trade invoicing and dominance in international banking are not two facts that happen to coincide. They are one fact with two observable faces. It follows that a dollar shock propagates through the pricing channel and the financial channel simultaneously, that the two channels' cross-sectional incidence is positively correlated by construction, and that any attempt to identify one while ignoring the other will attribute part of the second to the first.This is the analytical reason why decomposition has been difficult, and it is why Section 6 argues that decomposition must proceed through signatures other than cross-sectional exposure alone.

IV. THE PRICING CHANNEL

4.1. The Paradigm and its Evidence

Gopinath et al. (2020) formalise the dominant currency paradigm through three features: pricing in a dominant currency, pricing complementarities across competing firms, and imported input use in production. The last matters because it dampens the cost advantage that depreciation would otherwise confer, since a depreciating exporter's imported inputs become more expensive in local currency. The paradigm is tested on newly constructed bilateral price and volume indices spanning more than 2,500 country pairs and covering 91 percent of world trade, supplemented by firm-product-country data for Colombian exports and imports.

Four findings define the paradigm. Non-commodity terms of trade are uncorrelated with exchange rates, which is the single most direct refutation of producer currency pricing. The dollar exchange rate quantitatively dominates the bilateral rate in both pass-through and trade elasticity regressions, and the magnitude of this dominance rises with the share of imports invoiced in dollars, which is the paradigm's central testable prediction and its strongest confirmation. United States import volumes are significantly less sensitive to bilateral exchange rates than other countries' imports, as they must be if the invoice currency is the destination currency for that flow. And a one percent dollar appreciation against all other currencies predicts a decline of approximately 0.6 percent within a year in the volume of total trade between countries in the rest of the world.That last figure is the field's headline number and the object of this article's central caution. It is a reduced-form prediction, not a structural pricing elasticity, and Section 6 argues that it contains an unmeasured financial component.

4.2. Extensions and Open-Economy Consequences

The research programme is reviewed by Gopinath and Itskhoki (2022). Its macroeconomic consequences are substantial: under dominant currency pricing, the sign and magnitude of output spillovers from dollar appreciation differ from those implied by producer currency pricing, which changes the appropriate design of monetary policy and the terms of international policy coordination (Georgiadis & Schumann, 2021). For a country whose exports are largely dollar-invoiced, the exchange rate is a much weaker instrument of external adjustment than the standard framework suggests.

4.3. What the Pricing Channel does not Predict

It is worth stating plainly what this literature does not claim, because the point is frequently lost. Dominant currency pricing predicts the absence of expenditure switching. It predicts that bilateral depreciation will fail to stimulate exports and that the dollar rate will matter more than the bilateral rate. It does not, on its own, predict that dollar appreciation should contract the exports of a country to a destination whose currency is the dollar. For that flow, dollar appreciation raises the exporter's local-currency receipts and, if anything, should support export supply.

Any observed contraction in United States-bound exports following dollar appreciation therefore requires a mechanism outside the pricing framework. This is the opening through which the financial channel enters, and it is the basis of the diagnostic proposed in Section 6.

V. THE FINANCIAL CHANNEL

5.1. The Dollar as a Measure of Global Credit Conditions

Bruno and Shin (2015) establish the mechanism. Internationally active banks fund themselves substantially in dollars while holding assets in a range of currencies, so dollar appreciation weakens the balance sheets of their borrowers, raises measured credit risk, and contracts the banks' own risk-taking capacity. The dollar therefore operates as an inverse index of

global liquidity, and its movements transmit to credit supply worldwide independently of any trade-competitiveness consideration.

The intervening links are individually documented. Emerging market corporates borrow in dollars in patterns consistent with carry-trade motives rather than purely operational hedging needs, which builds the mismatch that later transmits the shock (Bruno & Shin, 2017). That mismatch materialises in corporate distress following depreciation episodes (Bruno & Shin, 2020) and in real investment, where the dollar behaves as a global risk factor (Avdjiev et al., 2019a). The pricing of dollar funding scarcity is visible in deviations from covered interest parity that co-move with the dollar and with bank leverage (Avdjiev et al., 2019b). The transmission of United States monetary policy through global bank balance sheets is well established (Bräuning & Ivashina, 2020; Miranda-Agrippino & Rey, 2020), and the dollar's role as a risk factor for emerging market economies specifically has been documented at the aggregate level (Hofmann & Park, 2020). On the lending side, foreign currency loans carry distinct credit risk that materialises precisely when the exchange rate moves (Niepmann & Schmidt-Eisenlohr, 2022).

5.2. From Credit to Trade

The link to trade quantities runs through working capital. Trade is credit-intensive, and the intensity increases with the length of the production chain, because each additional stage adds a period during which inputs must be financed before revenue is realised. Dollar appreciation, by tightening dollar credit, therefore bites hardest where value chains are longest (Bruno et al., 2018). The theoretical apparatus for translating credit constraints into trade quantities is standard: financing frictions affect both which firms export and how much they export, operating on both the extensive and intensive margins (Manova, 2013; Melitz, 2003).

Bruno and Shin (2023) provide the direct test and the finding on which this article's diagnostic rests. Following dollar appreciation, exporters more reliant on dollar-funded bank credit suffer a greater decline in credit and a greater slowdown in exports. Critically, the slowdown includes exports to the United States. The aggregate counterpart is the documented co-movement of the dollar with bank leverage and real economic activity, a relationship the evidence suggests has strengthened as financial globalisation has deepened (Erik et al., 2020).

5.3. Why the Destination Detail is Decisive

The inclusion of United States-bound exports is not a robustness check. It is the identifying observation. For exports to the United States, the invoice currency and the destination currency coincide, so dollar appreciation raises the exporter's local-currency receipts per unit sold. The competitiveness channel predicts expansion. The pricing channel predicts, at worst, no effect. Only a supply-side mechanism operating through the exporter's own financing capacity predicts contraction. That contraction is observed.

This is a sign test rather than a magnitude test, which makes it robust to the measurement problems that afflict cross-sectional exposure measures. It does not require accurate estimates of invoicing shares or funding dollarisation. It requires only that the two flows be separated and their signs compared.

VI. RECONCILING THE TWO CHANNELS

6.1. Distinct Signatures

The two mechanisms share a driver and differ in almost everything else. Table 1 summarises the corpus on the dimensions that matter for separation.

Table 1. Principal evidence on dollar transmission to trade, by channel.

Study	Channel	Data and coverage	Identification	Headline finding
Gopinath et al. (2020)	Pricing	Bilateral price and volume indices, 2,500+ country pairs, 91% of world trade; Colombian firm-product data	Cross-sectional variation in dollar invoicing shares; terms-of-trade tests	1% broad dollar appreciation predicts ~0.6% decline in rest-of-world trade volumes within a year; effect rises with dollar invoicing share
Amiti et al. (2022)	Pricing (micro-foundation)	Belgian firm-level transaction data	Within-firm variation in invoicing choice	Invoicing is strategic; import intensity and competitor behaviour drive dollar choice, altering pass-through
Georgiadis and Schumann (2021)	Pricing (spillovers)	Cross-country macro panel	Structural model with dominant currency pricing	Output spillovers from dollar appreciation differ in sign and magnitude from producer currency pricing benchmark
Bruno and Shin (2015)	Financial	Cross-border banking aggregates	Structural model of bank leverage and dollar	Dollar strength contracts global bank risk-taking capacity
Bruno and Shin (2023)	Financial	Firm-level credit and export data	Cross-firm variation in dollar-funded credit reliance	Dollar appreciation reduces credit and exports for dollar-reliant exporters, including exports to the United States

Bruno et al. (2018)	Financial (mechanism)	Aggregate trade and chain-length measures	Working capital intensity of production chains	Credit tightening bites hardest where value chains are longest
Avdjiev et al. (2019a)	Financial (transmission)	Cross-country investment data	Dollar as global risk factor	Dollar appreciation associated with lower real investment
Avdjiev et al. (2019b)	Financial (pricing of funding)	Covered interest parity deviations	Dollar and bank leverage co-movement	Dollar strength widens CIP deviations, indicating dollar funding scarcity

Three separating signatures emerge from the table and from the underlying mechanisms.

- Destination composition. The pricing channel predicts no contraction, and possibly expansion, in United States-bound exports. The financial channel predicts contraction there alongside everywhere else. This is the sharpest test available and it does not depend on measuring exposure accurately.
- Time profile. Pricing effects operate at the frequency of price resetting and order books and should peak within roughly two to four quarters. Credit effects operate through loan rollover and working capital cycles and should build more slowly and persist longer. Horizon-by-horizon estimation, standard in this literature since Jordà (2005), therefore carries identifying information that single-horizon regressions discard.
- Cross-sectional incidence. The pricing channel scales in the dollar invoicing share of exports. The financial channel scales in the dollar share of exporter and bank funding. These are correlated, for the structural reason given in Section 3.2, but imperfectly so, and their correlation is far from unity across the EMDE universe.

6.2. The Composite Problem

The headline elasticity of roughly 0.6 percent (Gopinath et al., 2020) is a weighted average across a heterogeneous set of economies, and the weights are determined by an unmeasured mix of invoicing dollarisation and funding dollarisation. It is not a structural parameter. Using it to forecast, or to calibrate policy, requires assuming that the weights are stable across time and comparable across countries. Neither assumption has been tested, and Section 7 gives reason to doubt the first.

The symmetric criticism applies to the financial literature. Bruno and Shin (2023) identify the credit channel cleanly at the firm level, but the pricing channel is operating simultaneously in the background and is not netted out; the estimated credit elasticity is therefore conditional on a pricing environment that is itself changing.

Neither literature is at fault for this. Each answers the question it poses. The gap is that nobody has posed the joint question, and the consequence is that the field possesses two credible mechanisms and one number.

6.3. What a Joint Estimate Would Require

The decomposition is feasible with data that largely exist. It requires a panel with three elements: country-level export volumes disaggregated by destination so that United States-bound and rest-of-world flows can be compared; time-varying measures of dollar invoicing shares, which the Boz et al. (2022, 2025) series now provide for 115 countries; and measures of funding dollarisation at the banking-sector and corporate level from Bank for International Settlements banking statistics. Entering the two exposure measures jointly, with time effects absorbing the direct dollar shock, would identify each conditional on the other from cross-country variation alone.

The firm-level counterpart would use matched credit registry and customs data with product-destination-time effects, in the design established for credit supply shocks by Khwaja and Mian (2008) and applied to currency shocks by Bruno and Shin (2023). That specification isolates the credit channel definitionally, because the pricing channel operates identically across firms selling the same product to the same destination.

The binding constraint is not conceptual. It is the low observation frequency of invoicing data and the limited country coverage of matched firm-bank-customs registries.

VII. THE STABILITY QUESTION

Invoicing inertia has been among the most robust regularities in international macroeconomics, and it is documented directly in the 115-country panel (Boz et al., 2022). That inertia is now under pressure. Updated and expanded invoicing data show movements since 2020 that correlate with geopolitical alignment, including growth in renminbi invoicing concentrated in particular trading relationships (Boz et al., 2025). Excluding euro area countries, the dollar and euro accounted for roughly 60 percent and 25 percent of invoicing respectively by 2023. These shifts sit within a broader realignment of trade and financial linkages along bloc lines (Aiyar et al., 2023).

The implication for the pricing channel is direct and arithmetically unavoidable: its magnitude is explicitly a function of the dollar invoicing share, so a falling share means a weakening channel. The implication for the financial channel is neither direct nor obvious, and this asymmetry is, in the view taken here, the most consequential under-examined question in the field.

Three considerations suggest the financial channel will prove stickier. First, the complementarity established by Gopinath and Stein (2021) runs through safe asset markets, and the depth of dollar safe asset markets is not something a bilateral settlement arrangement can replicate. A firm may invoice in renminbi while continuing to fund in dollars, because the alternatives to dollar funding remain shallower and costlier. Second, the coordination externality that sustains dominance operates more strongly in financial markets, where liquidity begets liquidity, than in invoicing, where a bilateral pair can in principle agree to switch. Third, funding relationships are contractual and long-dated, whereas invoicing can change at the next order.

If this reading is right, the transition path has an uncomfortable property: partial de-dollarisation reduces measured trade exposure to the dollar while leaving balance-sheet exposure substantially intact, and possibly increases the mismatch between the currency of receivables and the currency of liabilities. A firm invoicing in renminbi and borrowing in dollars is more exposed to dollar appreciation than one doing both in dollars, not less. This is a testable proposition and it has not been tested.

VIII. WHAT THE EVIDENCE CANNOT CURRENTLY SETTLE

Five limitations bound the conclusions available from the present corpus.

- Frequency of invoicing measurement. Invoicing shares are observed at low frequency and must be interpolated for use in higher-frequency analysis. This attenuates estimated pricing interactions and biases any decomposition towards the financial channel, meaning that the balance of evidence in Section 6 should be read as an upper bound on the financial share.
- Identification of dollar shocks. Broad dollar movements are endogenous to global risk conditions, which independently move trade. The global financial cycle literature establishes how tightly these are linked (Miranda-Agrippino & Rey, 2020). No identification strategy in the corpus is uncontested, and several share a common failure mode if global risk drives both the dollar and the instruments used to purge it.
- Coverage of firm-level evidence. Matched credit registry and customs data exist for a small and non-random set of countries. The firm-level work validates the mechanism convincingly but cannot establish its external magnitude.
- Within-country heterogeneity. Country-level invoicing shares mask firm-level variation that the micro evidence shows to be substantial (Amiti et al., 2022). Aggregate moderators are therefore noisy proxies for the theoretically relevant exposure.
- Absence of a general-equilibrium accounting. Partial-equilibrium elasticities cannot be aggregated into a welfare statement without closing the loop through the United States and through third-country demand. The spillover work indicates that this closure changes the answer materially (Georgiadis & Schumann, 2021).

IX. POLICY IMPLICATIONS

The two channels imply different instruments, and conflating them produces policy that addresses the visible half of the problem.

9.1. Exchange Rate Policy

Where the pricing channel dominates, the competitiveness benefit of depreciation is largely illusory and monetary policy cannot purchase export growth through the exchange rate. Where the financial channel dominates, depreciation against the dollar is not merely ineffective but contractionary through balance sheets, which strengthens the case for leaning against disorderly moves. The relevant parameter is country-specific, and the same policy advice cannot be correct for a commodity exporter with shallow credit markets and a manufacturing exporter with deep ones.

9.2. Dollar Liquidity Provision

A financial channel of material magnitude implies that access to dollar liquidity during appreciation episodes performs a trade-protecting function distinct from its financial-stability function. Swap lines and precautionary facilities should therefore be evaluated against export outcomes and not only against funding spreads, given the documented co-movement of the dollar with bank leverage and real activity (Erik et al., 2020).

9.3. Macroprudential Regulation

Where funding dollarisation is high, limits on currency mismatch in banking systems and corporate balance sheets address the transmission mechanism directly rather than its symptoms. The evidence that dollar borrowing reflects carry-trade motives as well as operational need (Bruno & Shin, 2017) implies that a portion of this exposure is discretionary and therefore responsive to regulation, and the associated credit risk is measurable on the lending side (Niepmann & Schmidt-Eisenlohr, 2022).

9.4. Invoicing Diversification

Local currency settlement arrangements and regional payment systems target the pricing channel and nothing else. If the asymmetry argued in Section 7 holds, they will reduce measured trade exposure to the dollar while leaving funding exposure intact, and may in transition worsen the mismatch between the currency of receivables and the currency of liabilities. They should be presented and evaluated on that basis rather than as comprehensive de-risking. The coordination-externality foundation of dominance also means unilateral diversification confronts a collective action problem that bilateral arrangements only partially solve (Eichengreen et al., 2016; Rey, 2001).

9.5. Surveillance

Because invoicing composition now moves with geopolitical alignment rather than with trade fundamentals alone (Boz et al., 2025), currency composition has become a variable that trade surveillance and financial surveillance should track jointly rather than in separate workstreams.

X. CONCLUSION

The claim that a weaker currency helps exports is among the most durable propositions in applied economics and

among the least reliable for the countries that most often act on it. Two literatures explain the failure, and this article has argued that they explain different parts of it. Dominant currency pricing removes the expenditure-switching benefit that theory promised. The dollar credit channel supplies a contractionary force that theory did not anticipate. The first predicts muted responses; only the second predicts the contraction in United States-bound exports that is actually observed.

The two are separable on evidence largely already collected, through destination composition, time profile, and cross-sectional incidence, and the destination test is decisive because it requires no accurate measurement of exposure. What has prevented separation is not data scarcity so much as the fact that the joint question has not been posed: each literature has answered its own question well and taken the other as background.

The cost of leaving them bundled is now rising. The headline elasticities on which policy analysis relies were estimated under three decades of invoicing stability that is ending. If invoicing diversifies while dollar funding does not, the composite elasticity will fall for reasons that leave the more damaging mechanism entirely in place, and the policy agenda currently gathering momentum around local currency settlement will be credited with a success it has not achieved. Distinguishing the two channels is therefore not a refinement. It is the difference between knowing and not knowing whether the world is becoming less exposed to the dollar or merely differently exposed to it.

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