

Two meanings of cooperation between Japan and Taiwan in China Market

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Content

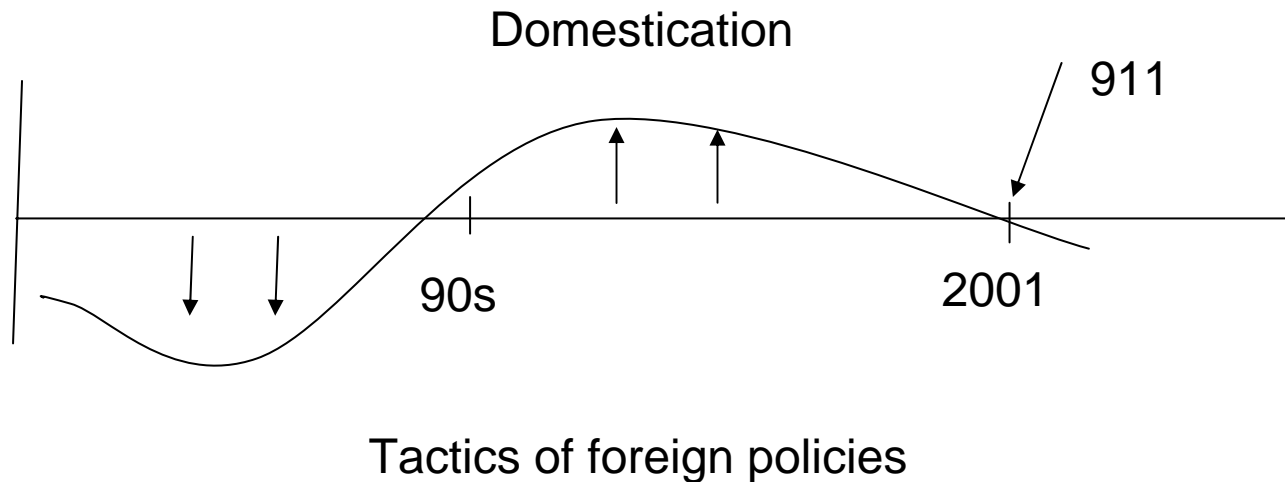
Essay1: International trade as a remedy of political conflict

Essay2: Two Levels of Strategic Thinking in Chinese Market

Essay1: International trade as a remedy of political conflict

Motivation:

1. Two major purposes of American trade policy
 - a. domestication
 - b. tactics of foreign policies



Observations

The United States signed FTA with Middle East countries

Jordan (\$404 million in 2002), signed in 2001


Morocco (\$565 millions in 2002) signed in 2004

Bahrain (\$419 million 2002) signed in 2004

A quote from the news released by USTR

*“First FTA with Persian Gulf Partner; Opens Markets, Promotes Liberty and Opportunity in the Middle East and **Fulfills 9/11 Commission Recommendation**”*

National security concerns regained its importance in American trade policies



Political conflicts or arms race could be negative externality to the other countries.

National security is a public good and the negative externality imposed by the rival country makes the world a second best one.

How could governments step in and buy out the heavily armed country?

Strategic trade or aid policy could be an instrument.

Like the ODA program used by Japan

- The simple two country game-theoretic model under incomplete information

How a democratic country (Country A) could reduce its military threat from a dictatorial country (Country B) via strategic aid program.

Assumptions: 1. No mutual military contest 2. No bilateral FDI
3. Country B's type is private information

Step1. Country B will be informed about its type θ and then decides W

Step2. Country A observes W and uses Baye's rule to derive its belief about the types of Country B

Step3 Country A will maximize its expected payoff by choosing its best response $T(W)$ to W , under its belief about the type.

Step4 The pair of strategy profiles ($W^*, T^*(W^*)$) is said to be PBE if both countries have no incentive to deviate from the current strategies.

The Two-stage extensive game (Signal Model)

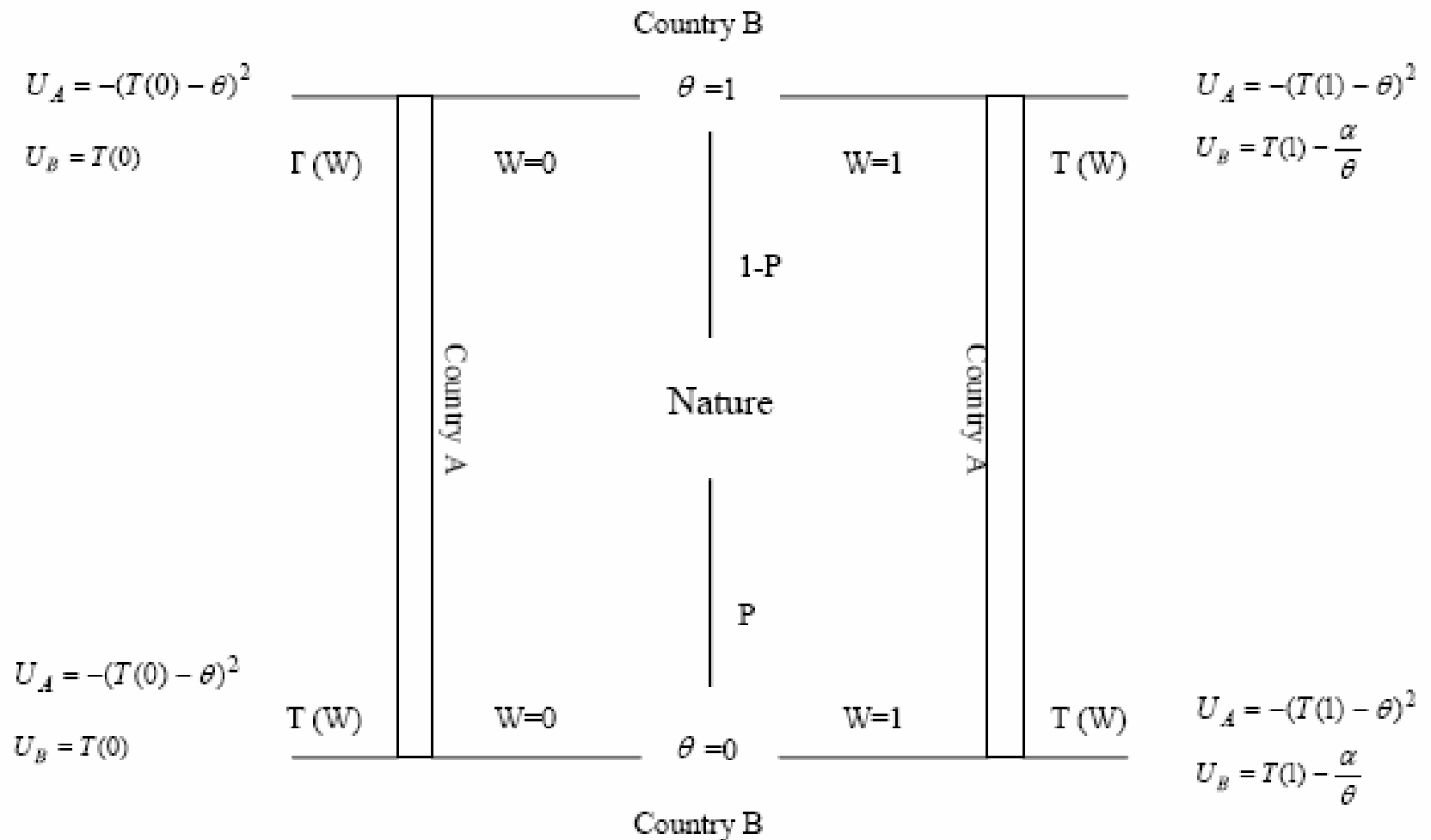


Figure 1

- The feature about the optimal payment scheme $T(W)$

PBE(1):

When cost of developing weapons is less than its threat level, Country A should only give aid when Country B takes aggressive action.

Proving that when $0 < \alpha < 1$, there exists a separating PBE where

$$W^*(\theta) = \begin{cases} 0 & \text{if } \theta = 0 \\ 1 & \text{if } \theta = 1 \end{cases} \quad T^*(W) = \begin{cases} 0 & \text{if } W = 0 \\ 1 & \text{if } W = 1 \end{cases} \quad \mu(\theta = 0 | W) = \begin{cases} 1 & \text{if } W = 0 \\ 0 & \text{if } W = 1 \end{cases}$$

- The feature about the optimal payment scheme $T(W)$

PBE(2):

When cost of developing weapons is at least as great as its threat level, Country A can use the aid program to prevent Country B from taking any aggressive action.

Proving that when $\alpha \geq 1$, there exists a pooling PBE where

$$W^*(\theta) = 0 \quad \forall \theta \quad T^*(W) = \begin{cases} 1-p & \text{if } W = 0 \\ 1-\lambda & \text{if } W = 1 \end{cases} \quad \mu(\theta = 0 | W) = \begin{cases} p & \text{if } W = 0 \\ \lambda & \text{if } W = 1 \end{cases}$$



Implications:

1. Japan should continue to play the important role in maintaining the regional peace in Northeast Asia.
2. What are the alternative means to a simple aid program?

Essay2: Two levels of strategic thinking in Chinese market

Observations:

- 1. China's domestic markets in capital and consumption goods are expected to be growing.
- 2. Multinational corporations from the U.S, Japan and EU countries aim at Chinese market in terms of not only factor markets but also product markets.
- 3. In some emerging markets, strategic interactions between firms are commonly seen.

Strategic Trade Policy are often used to shift excess profits from foreign rivals to the home country firms (Brander and Spencer,1983)

Why Strategic Trade Policy does not work?

1. High degree of vertical disintegration
2. STP might instead trigger price competition
3. Lack of long-term policy commitment
4. Possible retaliation from the rival government
5. Social cost of public fund

Thinking:

At government level, governments should refrain themselves from using STP or instead use STP as **an instrument of punishment** (Tit for Tat strategy)

The market entry strategies in an emerging market

Flawed marketing strategies:

(1) Replication of global strategies without adjusting to local conditions.

→ Uniform pricing and marketing strategies

Managerial and menu costs may provide justification

Lack of pricing flexibility often lead MNCs to compete against each other for serving only high income group.

(2) MNCs also tend to rely on large distribution system and are reluctant to invest on traditional wholesale and retailing system

Segmentation vs Mass marketing

- The segmentation strategy gives local firms the scope to develop local brands and mass marketing strategies
- MNCs' competitive edge in resources, technology and managerial skills may disappear.

ex: Japanese mobile phone makers opted out of China market

However, infrastructure such as distribution systems on which Mass marketing strategies depend, are not yet soundly built.

Three phase of market entry strategies for mass marketing

1. Using low-commitment market entry mode to test the market potentials and collect local market information.
2. Intensified marketing activities and facility investment.
3. The consolidation of a country-specific system into an integrated global marketing organization.

Possible market entry modes

A. Agency

B. Piggybacking

C. Strategic alliances:

1. Complementary skills
2. Cooperative cultures
3. Compatible goals
4. Commensurate risk

Why Japanese and Taiwanese firms?

1. The vertical relations between Japanese and Taiwanese firms can prevent both governments from engaging STP.
2. Positive assortative matching in production
Industries that behave high degree of vertical disintegration must cautiously choose their production partners. (O ring model)
3. Taiwanese firms can help Japanese firms in reducing transaction costs.
Taiwanese firms' networking and experience with local authorities are advantages that Japanese firms need.



Conclusion:

1. Cooperative cultures and commensurate risk
2. Vertical relationships
3. Taiwan's experience at doing business in China Market

Thinking:

Firms from both countries should cooperate to combine advanced technology with better market accessibility and manufacturing quality.



Thank you very much!