

DISSERTATION ABSTRACT

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This dissertation is an endeavor to explore the challenges to a newly industrialized country (NIC). The roles of an NIC are tricky. For instance, the production costs in an NIC are often higher than those in other developing countries. At the same time, the technologies and marketing skills of an NIC still fall behind other developed countries.

These situations lead to the following issues, which will be investigated in this dissertation: 1) the effects of trade liberalization; 2) the challenges of upgrading the industrial structure from being the subcontractors of foreign branding firms; and 3) the impact of foreign production activities on domestic employment.

After an introduction presented in Chapter One, Chapter Two builds a three-country three-sector general equilibrium model to study the effects of trade liberalization on an NIC, which has a comparative advantage in producing high-tech intermediate goods. It finds that rather than full liberalization, the NIC will implement a moderate level of restriction on export of high-tech intermediate goods to the developing country. This is because both the NIC and the developing country use the high-tech intermediate goods as input for the final goods, and they compete in exporting their final goods to the third country.

In the past few decades, many firms in NICs have served as subcontractors to the branding firms in developed countries. This has led to the following question: would the subcontractors in NICs choose to become branding firms under certain conditions?

Chapter Three builds a two-stage game that decides whether the foreign branding firm and the domestic subcontractor should cooperate. (Under this cooperation, the former outsources production to the latter and the latter agrees to do so.) The model considers the scenario that the foreign branding firm will have a higher brand value. The result shows that without horizontal differentiation, the subcontractor will become a branding firm only if it is subsidized to do so. However, if 1) the brands are also horizontally differentiated; 2) the sunk cost to brand is low; and 3) the brand value for the potential branding firm is high enough, the subcontractor might choose to brand and enter the final goods market even without subsidies. The empirical study in this chapter confirms this argument.

Taking Taiwan, one of the Asian NICs, as an example, Chapter Four studies the impact of growing foreign production activities on domestic employment. Borrowing an implication of the knowledge capital model, it first argues that the vertical multinationals headquartering domestically while producing abroad will prevail since Taiwan is a small and skilled-labor-abundant country and the trade costs are not high. This implies that while the skilled labor might not be hurt, the less-skilled labor would suffer. The firm-level data of Taiwanese multinationals confirm this implication. The empirical evidence suggests that there exists a geographical separation of R&D and production activities.

The final chapter provides a conclusion and future research directions.