

Note to the Reviewer#1 on the revised version of the
Discussion Paper 2016-7 Economics
“Passive unilateral cross-ownership agenda and strategic trade policy”

We are truly grateful to the anonymous referee for her/his comments and suggestions on the Discussion paper version of our work which, undoubtedly, have helped us to improve substantially its quality and clarity. Below we underline the revisions and with regard to the issues raised by the referee (reported in Italics).

1) First, this paper is not well motivated. It is better for the authors to provide some empirical evidence to support the importance of considering the strategic trade policy in the presence of passive unilateral cross-ownership and whether what we observed from real life on the changes in the choice of export subsidy regime is consistent with the theoretical predictions of this paper.

We have modified the introduction to provide the required clarification. Our strategy has been twofold.

First, we have better circumscribed the theoretical literature review (which was “too broad”) to the contributions closer to the purpose of the paper. In particular, the overall description of the models of strategic trade policy in the presence of unionized labour markets and managerial delegation has been drastically reduced (simple mention with a short list of the main references).

Second, as the referee has properly warned, we have presented several empirical cases to support the relevance of considering the strategic trade policy in the presence of passive unilateral cross-ownership.

The paper's results may be useful for econometricians and economic policy historians in order to test whether and how trade policies of countries whose exporting firms have been involved in passive cross-ownership with foreign rivals are changed.

There are many cases (also reported in which firms acquire their rivals' stock as passive investments that give them a share in the rivals' profits but not in the rivals'

decision making. We only mention a few (see for more details Gilo, 2000; Gilo and Spiegel, 2003, Fanti, 2016), to indicate examples of eventual case studies. The first case regards the wet shaving razor blade market where Gillette, the international and U.S. leader, in the nineties acquired 22.9% of the nonvoting stock of Wilkinson Sword, one of its largest rivals. Several other examples are reported in the main text.

2) Second, this paper assumes that both governments decide whether to intervene in stage 0 and chooses the optimal subsidy (tax) to maximize its own welfare in stage 1. When both governments decide whether to intervene, their objectives are also to maximize their own welfares. Therefore the authors may consider combining stage 0 and stage 1 to one stage and analyze whether the equilibrium results will be changed or not.

As argued by the referee, we agree that the issue of assuming a simultaneous or sequential order of moves is always crucial in a game setting. In the Appendix we have developed a model in which it is assumed that trade policy parameters can be chosen either sequentially or simultaneously by Governments, according to the observable delay game early formulated by Hamilton and Slutsky (1990). Our findings show the key results in the main text are robust to the endogenous determination of the sequence of moves by Governments.

3) Third, it is suggested that the authors can provide some discussions on comparison of the equilibrium results unilateral cross-ownership and those under bilateral cross-ownership.

In real life, the cross-ownership of companies may result in a complex network of interdependent relations between economic agents. In the industrial organization literature the term “cross-ownership” includes all kinds of ownership relations that are distinguished in the finance literature. These include pyramiding structure, one-sided shareholdings, and mutual (reciprocal) shareholdings (which also includes “ring-form” links) (Dietzenbacher and Temurshoev, 2008). An analysis of the endogenous emergence of equilibrium trade policies under bilateral cross-ownership is beyond of the scope of the present work, but it is on our research agenda. Indeed,

following the suggestion of the referee, we have conducted a preliminary investigation of the case of bilateral cross-ownership and a preliminary discussion on comparison of the equilibrium results under unilateral cross-ownership and those under bilateral cross-ownership in the case of the *exogenous* assumption of activist and non-activist policies has been reported in the main text.

4) *Fourth, it is suggested to provide some economic intuitions for result 1 and result 2.*

In effect, the clarification required was necessary. Therefore, the detailed economic intuition behind the core results of the paper has been reported in the main text. We would like to thank the Referee for this suggestion.

5) *Fifth, previous literatures have already provided some analysis on the strategic trade policies in the framework of international cross-ownership, e.g. Lee (1990) and Long and Soubeyran (2001). Therefore it is suggested that the authors compare their results with the mentioned papers.*

We have discussed the two papers of Lee (1990) and Long and Soubeyran (2001) in the main text, underlying the differences between the approaches of those papers with ours. We thank the referee for having signaled the above mentioned works.

We conclude this note with our best regards to the referee, thanking her/him once again for her/his valuable comments and hoping that the new version of our paper adequately meets the issues pointed out in his/her report.

References

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