

The Scope for Strategic Asymmetry under International Rivalry

Onur Koska

University of Canterbury, New Zealand
onur.koska@canterbury.ac.nz

Abstract:

In a simple reciprocal dumping model with horizontally differentiated (substitute) goods, this study scrutinizes the endogenous choice of quantities and prices as strategic variables under international rivalry. We show that while a Cournot outcome prevails under export rivalry, strategic asymmetry under FDI rivalry may be observed especially when it is possible to initially deter FDI by committing to a price contract, and when switching is costly and/or takes time.

Keywords: International Trade, Foreign Direct Investment, Horizontal Product Differentiation, Cournot-Bertrand-Nash Equilibrium

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