

Domestic ownership of foreign firms and strategic privatization policy

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Abstract

In this paper, we consider how the domestic ownership of foreign firms affects the privatization of a public firm competing with foreign firms in the international market. We show that the domestic ownership of foreign firms can impede privatization under Cournot competition, whereas under Bertrand competition it can in fact promote privatization. Furthermore, we demonstrate that for both types of competition, the domestic ownership of foreign firms can render neither complete privatization nor complete nationalization optimal under moderate conditions.