Do common ownership facilitate trade in goods?

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Abstract

This paper develops a two-country model of a four-firm oligopoly in which one home firm and one foreign firm mutually own shares in each other's profits, a form of international common ownership, while the other firm in each country operates independently. The home and foreign governments simultaneously decide the optimal level of a given policy instrument—export tax, production subsidy, or import tariff—to maximize national welfare prior to the sales quantity choices by the firms in the home and foreign markets. We demonstrate that an increase in international common ownership expands (contracts) trade volume but deteriorates (improves) social welfare when the government's objective function excludes (includes) the part of the profit share of the foreign shareholding firm.

Keywords: Common ownership; Trade volume; Export tax/subsidy; Production subsidy; Tariff

JEL classification: F12; F13; D21; L23

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