

Strategic Relationship between Skill Investment and FDI

Yukiko Sawada*

Abstract

We investigate the effect of management skill investment by a consulting agent which improves productivity efficiency of the subsidiary on overseas strategies of the production firm. A firm serves the foreign market via export or foreign direct investment (FDI) through Cournot competition with a foreign firm. Since a firm needs a higher operational skill of a consulting agent to reap a greater benefit from foreign production, the firm's strategy depends on skill level of a consulting agent. We show the strategic relationship between a consulting agency and a firm and derive the skill investment level and the firm's strategy in the equilibrium. If bargaining power of the firm is too high or low, the firm cannot induce the consulting agency to make skill investment, which turns out to be the lowest payoff for both agents. If the bargaining power of the firm is medium level, the consulting agency invests in management skill and the firm takes FDI strategy. In this case, they can get higher payoff. We also show the optimal level of firm's subsidy to investment cost that satisfies social optimal.

*Graduate School of Economics, Osaka University e-mail address: nge012sy@student.econ.osaka-u.ac.jp