

Disciplining State Trading Enterprises under imperfect competition and economies of scale*

Margherita Scoppola

Abstract

A large body of literature has examined international grain trade in imperfectly competitive models. The model developed in the paper differs from previous ones, since it considers the export strategies used by multinational firms, which maintain a direct control over all importing/exporting functions; this strategy requires high fixed cost but allow firms to avoid the transactions costs arising from negotiating with downstream operators. The model considers a multinational firm and a state trading enterprises (STE) competing on a foreign market in a two-stage duopoly framework; while the STE is assumed to export only indirectly, the multinational firm chooses between indirect and direct exports, according to the relative values of transaction and fixed costs. The results of the game are examined by using numerical examples. The examples show that external shocks on export markets affecting the relative values of transaction and fixed costs of the international grain trading, may result in a change of market structures and of market shares. These effects depend on the initial market structure. The framework developed herein has interesting policy implications for the ongoing WTO negotiations in the DDA round about the effects of regulating STEs. A reduction of the subsidy to the exporting STE may result in a replacement of the STE by the multinational in the importing country, even though the final market structure crucially depends upon the initial market structure. Further, the paper also emphasizes that a liberalization of an importing STE may largely affect market structure and, accordingly, the market shares of the exporting countries.

Margherita Scoppola, Dipartimento di Studi sullo Sviluppo Economico
University of Macerata Piazza Oberdan 3, 62100 Macerata (Italy)
scoppola@unimc.it

*Financial support received by the Italian Ministry for University and Scientific and Technological Research is gratefully acknowledged (Research Program of National Scientific Relevance "Doha Development Agenda - Research Network"; Research Unit: Dipartimento di Istituzioni Economiche e Finanziarie, Università' di Macerata).