

Strategic R&D Policy in a Quality-Differentiated Industry with More than Two Exporting Countries

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Abstract

In this paper, we examine strategic R&D policy for quality-differentiated products in a third-market trade model. We extend the previous work by adding a third exporting country, so that the market structure is international triopoly. We show that the presence of the third exporting country affects strategic R&D policies. With three exporting countries, the lowest-quality exporting country gains from taxing domestic R&D and the middle-quality exporting country gains from subsidizing domestic R&D under both Bertrand and Cournot competition. As in the duopoly case, however, the unilaterally optimal policy for the highest-quality exporting country depends on the mode of competition. Various cases of policy coordination by exporting countries are also examined.

Keywords: strategic trade policy; R&D subsidy/tax; vertical differentiation; oligopoly.

JEL classification: F12; F13.

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