Port privatization in an international oligopoly

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April 16, 2013

Abstract

We investigate how port privatization affects port charges, firm profits, and welfare. Our model consists of an international duopoly with two ports and two markets. When the unit transport cost is large, privatization of ports *decreases* the prices for port usage, although neither government has an incentive to privatize its port. The equilibrium governmental decisions are inconsistent with the desirable outcome if the unit transport cost is not large enough. The smaller country's government is more likely to privatize its port, although the larger country's government is more likely to nationalize its port to protect its domestic market.

Key words: Port; Privatization; Port charge; Oligopoly; Strategic trade policy.

JEL codes: L33; F12; R48; F13.