

EconWorld2018@Lisbon

Strategic Trade and FDI Policies in A Unionized Industry With Differentiated Goods

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ABSTRACT

This paper analyzes the differences between strategic trade and the competition policies to regulate a unionized monopoly. Both the presence of an industry-wide union and decentralized unions is investigated. The entry via the inward Foreign Direct Investment of a competitor does not reduce labor market distortions, while strategic trade policy reduces both labor and product markets distortions. The fixed cost for the foreign entrant, the wage setting institution in place in the labor market, and the degree of product differentiation determine which policy should be implemented to maximize national welfare.

KEYWORDS strategic trade policy; FDI policy; unionized markets

JEL F13, J51, L12