Referee's report on "Passive unilateral cross-ownership and strategic trade policy"

By using a Counot duopoly model, this paper examines how the incentives of using strategic trade policies by governments could be changed in the presence of unilateral cross-ownership. The authors consider a model where one firm produces producing a homogenous product in each of the two exporting countries and sells to a third country. The stages of the game are as follows. In stage 0, both governments decide whether to intervene. In stage 1, each country chooses the optimal subsidy (tax) to maximize its own welfare expressed as the profit of the exporting firm minus (plus) the subsidy spending of the government (tax revenue). In stage 2 both firms choose optimal output levels to maximize their profits.

The authors find that the participated firm's government finds it optimal to tax exports instead of subsidize exports when the share of cross-ownership is sufficiently large.

This paper contributes to the current literature on strategic trade policy by providing the economic analysis on the choice of export subsidy regime in the presence of passive unilateral cross-ownership. As the equity market becomes more globalized, the cross-ownership is becoming more popular. Therefore the analysis on how the patterns of cross-ownership may affect the incentives of providing exporting subsidy is an important issue. Based on the assumptions of this paper, the analysis is correct and neat.

The following comments may help to improve this paper.

First, this paper is not well motivated. It is better for the authors to provide some empirical evidence to support the importance of considering the strategic trade policy in the presence of passive unilateral cross-ownership and whether what we observed from real life on the

changes in the choice of export subsidy regime is consistent with the theoretical predictions of this paper.

Second, this paper assumes that both governments decide whether to intervene in stage 0 and chooses the optimal subsidy (tax) to maximize its own welfare in stage 1. When both governments decide whether to intervene, their objectives are also to maximize their own welfares. Therefore the authors may consider combining stage 0 and stage 1 to one stage and analyze whether the equilibrium results will be changed or not.

Third, it is suggested that the authors can provide some discussions on comparison of the equilibrium results unilateral cross-ownership and those under bilateral cross-ownership.

Fourth, it is suggested to provide some economic intuitions for result 1 and result 2.

Fifth, previous literatures have already provided some analysis on the strategic trade policies in the framework of international cross-ownership, e.g. Lee (1990) and Long and Soubeyran (2001). Therefore it is suggested that the authors compare their results with the mentioned papers.

Finally, the authors may want to polish the English of this paper, especially the abstract part and the introduction part.

References

Lee, S., 1990. International Equity Markets and Trade Policy. *Journal of International Economics* 29 (1990), 173-184.

Long, N. and Soubeyran, A. 2001. International Cross-Ownership and Strategic Trade Policies. *Review of International Economics* 9 (1), 1-15.