

Referee report – "Gains from Multinational Competition for Cross-Border Firm Acquisition"
Economics, Manuscript 2556

Summary

This paper offers a model with simultaneous market entry of two firms into a foreign market that is occupied by a local monopolist. For the case of Cournot competition, this paper studies the effects of imposing minimum output requirements on the entrants on local consumer welfare. Within this scenario, for a situation where the two entrants compete for acquiring the local firm, the paper shows that local welfare is higher when one entrant acquires the local firm compared to the case when both foreign firms enter via independent foreign sales.

Contribution

I think the welfare analysis of the paper with respect to the above-stated regulation is potentially significant. It may nicely complement the industrial organization literature on market entry by augmenting it with characteristics and findings originating from the field of international trade. However, as outlined in the following comments, I also think that more can be done in convincing the reader that the findings are indeed relevant.

Comments

1. The author argues that the subject of the paper (i.e. the implications of incorporating a consumer welfare standard into foreign market entry regulations through minimum output requirements) have been overlooked by the previous literature. However, he does not provide any empirical or anecdotal evidence that would explicate the relevance of his research questions. Given that the author argues that his is the first study on this question, I would expect this.
2. It remains unclear what to learn from Proposition 2. The author wants to frame his results of foreign acquisition of the local firm as a prisoner's dilemma game. However, this notion is inadequate given that only the situation is discussed where one foreign firm can acquire the local firm. For the model to fit the action set of a prisoner's dilemma it would be necessary that both foreign firms can acquire the local firm simultaneously. This situation is however not discussed at all in the paper.
3. As the author correctly infers from Helpman et al. (2004) on page 4, more productive firms are more likely to access foreign markets (through either exports or FDI). Given this observation, the author assumes that the entrants are more cost-efficient than the incumbent firm. This may be correct; however, the argument is not entirely consistent with the reference. Helpman

et al. also predict, that very productive local firms are also active in the local market and therefore the present analysis is one of a very special case. I would expect this to be made clear in the paper. It would also be interesting to extend the analysis to the set of all possible marginal cost constellations and to see whether and how the welfare results extend to the alternative settings. This would strengthen the contribution of the paper as it then would not only be concerned with a very particular scenario.

4. In the Introduction, reference to “traditional models of FDI” is made but no paper is cited. I would expect citations of the most relevant papers here. Moreover, the summary of this literature in the first paragraph is not accurate: Papers on exporting vs. FDI with heterogeneous firms such as Melitz, Helpman, and Yeaple (2004) document that some firms may prefer FDI over exporting also in situations where trade is liberalized (e.g. transport costs still may exist).
5. The author should improve the readability of the paper. The summary of the paper’s contribution on page 2 consists of extremely long sentences and the paper would benefit from using simpler language here.
6. On page 6, the optimal output level q^*_i remains undefined. Moreover, the partial derivative of the inverse demand function with respect to q_i should be denoted accurately (denoting it by $p'(Q)$ suggests that the derivative is taken w.r.t. aggregate output).

References

Helpman, E., Melitz, M. J., & Yeaple, S. R. (2004). Export versus FDI with heterogeneous firms. *American economic review*, 94(1), 300-316.