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State-owned Enterprises, Competition and Product Quality

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Abstract

We consider a general oligopoly model with consumer surplus moderated quantity competition among state-owned enterprises (SOEs), where the SOEs employ workers who are members of the state-owned worker union and produce differentiated products. We show that increasing the number of SOEs would lead to an outcome in which these enterprises choose a lower level of product quality and this, in turn, results in welfare losses for the society, depending on the degree of substitutability. Our findings are consistent with the evidence from China and uncovers important linkages that exist between worker union, product quality and competition, and that have mostly been ignored in the industrial organization, trade and development literature.

Keywords: SOEs, Product Quality, Competition.

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