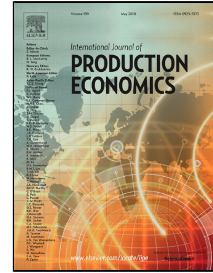


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Quality Competition in North-South Trade

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Abstract

This paper investigates three stylized facts about quality competition between an innovating firm in a developed economy and copycat producers in developing countries. First, the innovating firm may not enter the market in low-income countries, but copycat firms produce generic products. In the second scenario with horizontal product differentiation, the innovating firm may export the original product and coexist with local copycat producers. In the case of vertical product differentiation, the paper delineates the condition under which the innovator's product is superior in quality in the Cournot model. In the Stakelberg model, the quality of the innovator is always higher than in the Cournot model. In the third scenario, the innovating firm may exit from the developing country in the long run. The long run survival of the innovating firm crucially depends on consumers' willingness to pay and production cost in developing countries.

JEL classification code: F1, L1

Keywords: quality competition, copycat firms, vertical product differentiation

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