

are segmented and intermarket transport costs are taken into account.⁵⁴ In this case, an expansion in the number of active domestic firms at the expense of the number of foreign firms benefits domestic consumers, because the home firms avoid the extra cost of transporting goods to the local market.

Brander and Spencer have shown the situation where a country's government can use research and development policy to give its firms an advantage in international competition.⁵⁵ Quite a different strategic use of trade restrictions is pointed out by Krishna.⁵⁶ Consider a situation where two large firms, one home and the other foreign, are unable to sustain collusion by themselves. Now let the home government impose an import quota. This makes it profitable for the home firm to raise its price somewhat, with the assurance that the foreign firm will not be able to sell more by undercutting. Then the foreign firm can sell its quota amount at a higher price. This can increase both firms' profits. The effect of the quota is to allow *de facto* collusion (that is, it is a "facilitating practice"). The losers are the home consumers who now pay a higher price. This model has special appeal from the viewpoint of the "new political economy", which views trade policy as an outcome of lobbying by concentrated special interest groups.

⁵⁴ Anthony J. Venables, "Trade and Trade Policy With Imperfect Competition: The Case of Identical Products and Free Entry", *Journal of International Economics*, (19) 1985: 1-20; and James R. Markusen and Anthony J. Venables, "Trade Policy with Increasing Returns and Imperfect Competition: Contradictory Results from Competing Assumptions", *Journal of International Economics*, (24) May 1988: 299-316.

⁵⁵ James A. Brander and Barbara J. Spencer, "International R&D Rivalry and Industrial Strategy", *Review of Economic Studies*, October 1983.

⁵⁶ Kala Krishna, "Trade Restrictions as Facilitating Practices", *Journal of International Economics*, (26) May 1989: 251-70.