

# Fiscal Competition for FDI under Foreign Ownership Regulation\*

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## Abstract

Recently, we observe tax/subsidy competition for foreign direct investment (FDI) under both trade liberalization and relax of FDI restriction simultaneously. This study examines how foreign ownership regulation affects fiscal competition for FDI. We show that the quadruplet of differences in market size, transportation costs, technological difference between a foreign firm and a local firm, and FDI regulation are critical for which country to win the fiscal competition for FDI. Furthermore, it is shown that, given a large difference of technological level, trade liberalization can induce a larger country to deregulate its FDI policy to attract foreign firm.

**Keywords:** Economic Integration; Tax competition; Foreign direct investment; Partial Ownership

**JEL classification:** F13; F15; L11

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