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On the Nonequivalence of VIE and Import Subsidy

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Abstract. In contrast to the equivalence/nonequivalence of tariffs and quotas in import restriction, we examine that of VIE and import subsidy in import expansion. Assuming an increase in the market-share of foreign product is realized by two policies, we show that VIE and import subsidy are not equivalent and an importing country always prefers VIE to import subsidy if the administrative cost of VIE is zero. We also show that if the administrative cost is positive its cutoff value determines the choice between two policies.

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