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Abstract Abstract
This paper builds a model of three-country-two-firms model. The manufacturers of two countries are called the native and foreign manufacturer separately. The native and foreign manufacturers produce the homogeneity products to the third country to be engaged in Cournot competition. Due to the competitive price in the international market, both native and foreign companies have their production lines to be made by the third party to lower productive cost. As the wage of local labor is much higher than the third world, some manufacturers even think of doing FDI (Foreign Direct Investment) in their overseas factories.
For our Government needs taxation from the firms to enhance the social welfare. There are two ways for them to have enterprise to pay for it: (i) Limit investment amount（capacity constraint）for the individual. (ii) Levy a tax on FDI. According to the model, we are going to discover the optimal amount of foreign investment or tax rate of FDI. And analyze which policy will benefit to the Government.

In Chapter 2, we suppose that the native manufacturer will export their product overseas with 100%. Therefore, Government will need to set up the limited amount for overseas investment. If the wage of domestic enterprise is 4 times of the third party, Government has to restrict the oversea investment amount. On the contrary, Government can fully open FDI to the firm.
In Chapter 3, we suppose that the native manufacturer can also sell their product in domestic market. Under this condition, we study the most suitable investment amount of the firm which can do no harm to Government’s taxation. And the research showed (i) if the wage of native company is 4 times higher than foreign’s. (ii) If the demand of oversea market is higher than native. Government will need to set up the oversea investment limited amount（capacity constraint）. In the opposite direction, Government shall not open FDI.(Foreign Direct Investment).
In Chapter 4, we supposed Government has decided to levy taxes on the native manufacturer for foreign direct investment. And what the optional tax rate for the Government is the one we shall reveal in this chapter. When the wage of native market rises, Government takes the action to compensation the loss of the domestic firms; On the contrary, Government needs to have the firm to pay the high tax on it in order to keep them stay in the domestic market.
Key word：Foreign Direct Investment（FDI）、Capacity Constraint、Trade Policy
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