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## Why Do Export Subsidies Still Exist? R&D and Output Subsidies\*

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### Highlights

- Investigation of the endogenous choice of R&D subsidy and output subsidy.
- Choosing output subsidy policy for both exporting governments is a dominant strategy.
- However, both governments to face prisoners' dilemma.
- We find that the reason why some countries have incentives to use output subsidy policy.
- We discuss the Pareto-superior cooperative R&D equilibrium.

### abstract

To analyze why export subsidies still exist, we demonstrate the endogenous choice of strategic variable (R&D subsidy or output subsidy) in the third-market model in which exporting firms perform the R&D investment. We find that even though each government can improve welfare when it chooses R&D

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