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## **CHINA’S OPTIMAL STRATEGY AGAINST THE EUROPEAN UNION AVIATION CARBON TAX SCHEME: A TWO-STAGE GAME MODEL ANALYSIS**

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### **Abstract**

A two-stage game model is proposed in this paper to study how China can best respond to the European Union (EU) Aviation Carbon Tax Scheme. Four possible strategies of China can be chosen, including “non-resistance”, “refusal of pay”, “retaliatory duties” and “credible threat”. The analytic result shows that the strategy “refusal of pay” makes a consensus with the Chinese policy as an optimal strategy for China. The main contribution of this paper is to study a heated divergence on aviation carbon tax by using a two-stage game model.

*Key words:* aviation carbon tax (ACT), equilibrium, optimal strategy, two-stage game

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