# Mobile Capital, Optimal Tariff, and Tariff War

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**Abstract**

In an intra-industry trade model with mobile capital, we examine the characteristics of optimal tariffs and tariff wars. In contrast to most studies of optimal tariffs, we show that when capital intensity in production is high, larger countries can impose lower tariff rates, tariffs may be strategic complements, and smaller countries can win tariff wars. In that case, the main incentive of tariffs is output expansion and negative effects of tariffs on foreign demand play a key role. In addition, we can show that in a tariff war between two symmetric countries, a rise in capital intensity lowers the equilibrium tariff rate and the welfare-loss ratio. In other words, higher intensity of mobile capital alleviates excessive tariff competition.

*Key words:* Optimal tariff, Mobile capital, Monopolistic competition, Tariff war.

*JEL Classification:* F1.

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