

Tariffs and Ethnocentrism: Welfare Gains and Political Division *

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May 9, 2026

Abstract

Under a simple duopoly model in which one domestic and one foreign firm compete in the domestic market, this study theoretically examines the government's incentive to implement *policies promoting the consumption of domestic products* and a *tariff* when some consumers exhibit ethnocentrism. To this end, we assume the existence of consumers with ethnocentric preferences and pragmatic consumers who make consumption decisions based solely on basic quality and price. In particular, the following points are key findings. First, even when the government aims to maximize overall welfare, it implements campaigns and tariffs that appeal to consumers' ethnocentrism. Second, when the goal of winning more votes in elections is added, a political party has an incentive to include excessive domestic consumption promotion policies and excessively high tariff rate in its campaign platform, and thus the intensity of the resulting domestic consumption promotion policies may increase. Third, consequently, the implementation of policies promoting domestic consumption has the potential to create a divide between the two types of consumers.

Keywords: Ethnocentrism, promotion of domestic products, political conflict, trade policy.

JEL Code: D72, F12, F13, F50..

*We acknowledge the financial support from JSPS kakenhi(24K00258).

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