

WELCOME



FREE TRADE VS PROTECTION

Siddharth Bhardwaj
Assistant Professor
Dept. of Economics
Patna College
Patna University
Patna 5

FREE TRADE

- Free sale and purchase of goods and services by people of different countries.
- No direct/indirect restriction/control on export and import of goods and services.
- Absence of tariffs , quotas , exchange restrictions , taxes and subsidies on production , factor use and consumption.

CONTD..

- Following four conditions for terming a phenomenon as free trade.
- 1.No tariff/tax on import and export(foreign trade).
- 2.No quota/quantitative control on foreign trade.
- 3.No restriction or regulation of exchange rate and no control on sale and purchase of foreign currency.
- 4.No tax or subsidy imposed on production and consumption of traded goods and services.

THE CASE FOR FREE TRADE

- Maximisation of output
- Optimum utilisation of resources
- Optimisation of consumption
- High factor income
- Educative value
- Wide markets
- Prevents monopolies
- Encourages inventions
- Develops transport and communications
- Promotes International Cooperation
- Best policy for Economic Development

CASE AGAINST FREE TRADE

- Laissez Faire and Perfect Competition do not exist
- One sided development
- Production of inferior and harmful goods
- Cut throat competition and dumping
- Emergence of Multinational Corporations and Monopolies
- Exploitation and colonisation of Countries
- Economic dependence
- Trade cycles

PROTECTION

- Policy where domestic industries are to be protected from foreign competition.
- The aim is to impose restrictions the imports of low priced products in order to encourage domestic industries
- It may be done by imposing import duties , quotas , non tariff restrictions , subsidies , bounties.

ARGUMENTS FOR PROTECTION

Economic Arguments

- Terms of Trade gets improved by protection
- Necessary for bargaining and retaliation
- Necessary to stop dumping
- Necessary to diversify the domestic industries
- To protect the infant industries

CRITICISM OF PROTECTION

- Difficult decision
- Lack of reliable criteria
- Vested interests
- Difficult to remove duties
- Monopoly profits
- External economies do not exist

THANK YOU