

UGI SEMESTER - VI

MJC - 10

INTERNATIONAL ECONOMICS

Unit 1:

FREE TRADE VS PROTECTION

FREE TRADE

Meaning:

Free trade policy refers to a trade policy without any tariffs, quantitative restrictions and other devices obstructing the movement of goods between countries.

Prof. Jagdish Bhagwati defines free trade policy, "as absence of tariffs, quotas, exchange restrictions, taxes and subsidies on production, factor use and consumption".

According to Prof. Lipsey, "A world of FREE TRADE would be one with no tariffs and no restrictions of any kind on importing or exporting."

In such a world, a country would import all those commodities that it could buy from abroad at a delivered price lower than the cost of producing them at home."

Thus the policy of free trade means simply complete freedom of international trade without any restrictions on the movement of goods between countries.

However, there is an exception

Import duties can be levied for revenue and not for protection even under free trade.

For example, if the govt. levies a duty of 15% on all imports, all foreign goods which enjoy a cost advantage will continue as usual. But if even a simple foreign good enjoys a cost advantage of less than 15%, it means the end of free trade and import duty is for protection and not for revenue alone.

Thus a country following the free trade policy levies import duties which are lower than the cost advantage enjoyed by the lowest cost foreign good.