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# Free Trade

## Meaning :

Free trade is a trade policy that does not restrict imports or exports. It can also be understood as the free market idea applied to international trade.
Free trade is a largely theoretical policy under which governments impose absolutely no tariffs, taxes, or duties on imports, or quotas on exports. In this sense, free trade is the opposite of protectionism, a defensive trade policy intended to eliminate the possibility of foreign competition.
In government, free trade is predominantly advocated by political parties that hold liberal economic positions while economically left-wing and nationalist political parties generally support protectionism, the opposite of free trade.

**Free trade policies may promote the following features**:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g. quotas on imports or subsidies for producers).
- Trade in services without taxes or other trade barriers.
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others.
- Unregulated access to markets.
- Unregulated access to market information.
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power.
- Trade agreements which encourage free trade.

## Arguments for Free Trade :

### i. Advantages of Specialization:

Firstly, free trade secures all the advantages of international division of labour. Each country will specialize in the production of those goods in which it has a comparative advantage over its trading partners. This will lead to an optimum and efficient utilization of resources and, hence, economy in production.

### ii. All-Round Prosperity:

Secondly, because of unrestricted trade, global output increases since specialization, efficiency, etc., make production large scale. Free trade enables countries to obtain goods at a cheaper price. This leads to a rise in the standard of living of people of the world. Thus, free trade leads to higher production, higher consumption and higher all-round international prosperity.

**iii. Competitive Spirit:**

Thirdly, free trade keeps the spirit of competition of the economy. As there exists the possibility of intense foreign competition under free trade, domestic producers do not want to lose their grounds. Competition enhances efficiency. Moreover, it tends to prevent domestic monopolies and free the consumers from exploitation.

**iv. Accessibility of Domestically Produced Goods and Services:**

Fourthly, free trade enables each country to get commodities which it cannot produce at all or can only produce inefficiently. Commodities and raw materials unavailable domestically can be procured through free movement even at a low price.

**v. Greater International Cooperation:**

Fifthly, free trade safeguards against discrimination. Under free trade, there- is no scope for cornering raw materials or commodities by any country. Free trade can thus promote international peace and stability through economic and political cooperation.

**vi. Free from Interference:**

Finally, free trade is free from bureaucratic interferences. Bureaucracy and corruption are very much associated with unrestricted trade.In brief, restricted trade prevents a nation from reaping the benefits of specialization, forces it to adopt less efficient production techniques and forces consumes to pay higher prices for the production of protected industries.

## Arguments against Free Trade :

Despite these virtues, several people justify trade restrictions.

*Following arguments are often cited against free trade:*

**i. Advantageous not for LDCs:**

Firstly, free trade may be advantageous to the advanced countries but not to the backward economies. Free trade has brought enough misery to the poor, less developed countries, if past experience is any guide. India was a classic example of colonial dependence of UK’s imperialistic power prior to 1947. Free trade principles have brought colonial imperialism in its wake.

**ii. Destruction of Home Industries/Products:**

Secondly, it may ruin domestic industries. Because of free trade, imported goods become available at a cheaper price. Thus, an unfair and cut-throat competition develops between domestic and foreign industries. In the process, domestic industries are wiped out. Indian handicrafts industries suffered tremendously dining the British regime.

**iii. Inefficiency becomes Perpetual:**

Free trade cannot bring all-round development of industries. Comparative cost principle states that a country specializes in the production of a few commodities. On the other hand, inefficient industries remain neglected. Thus, under free trade, an all-round development is ruled out.

**iv. Danger of Overdependence:**

Fourthly, free trade brings in the danger of dependence. A country may face economic depression if its international trading partner suffers from it.

The Great Depression that arose in 1929-30 in the US economy swept all over the world and all countries suffered badly even if their economies were not caught in the grip of the then Depression. Such overdependence following free trade also becomes catastrophic during war.