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# ECONOMICS

UG Semester - VI [MJC - 10]

## INTERNATIONAL ECONOMICS

### PROTECTION

Meaning :-

The term protection refers to a policy whereby domestic industries are to be protected from foreign competition.

The aim is to impose restrictions on the imports of low-priced products in order to encourage domestic industries, may be protected by imposing import duties which raise the price of foreign goods by more than the price of domestic goods.

Or, they may be protected by quotas or other non-tariff restrictions which make imports of cheap foreign goods difficult or impossible. Or, the domestic industries may be paid subsidies, or bounties to enable them to compete with cheap foreign goods.

## ARGUMENTS FOR PROTECTION

Harberler has divided the arguments for protection into two groups :

— Economic

— Non-Economic

### Economic Arguments —

#### 1) Terms of Trade Agreement :-

The terms of trade argument is given to correct disequilibrium in the balance of payments of a country. It is argued that the imposition of a tariff on imports improves the rate at which the country's exports are exchanged for imports. This means that a tariff improves its terms of trade because the foreign exporter is forced to pay some part of the import duty.

The extent to which a country can improve its terms of trade by imposing import duty will depend upon the relative demand and supply elasticities at home and abroad.

#### 2) Bargaining or Retaliation Arguments :-

It is argued that the imposition of

tariffs is necessary to bargain in trade negotiations with other countries. Since international trade is based on reciprocal basis, tariff is used as a weapon to persuade or dissuade the other country to lower its tariff wall. Thus the fear of retaliation may induce countries to give reciprocal concessions to each other.

### 3) Anti - dumping Argument -

Protection is advocated against the practice of dumping. Dumping means selling a product in a foreign market at a lower price than in the home market, after taking into account transport and other costs of transfer. Dumping aims at flooding a foreign market with low-priced commodities. As a result, the import competing firms are ruined. To protect such firms, a high tariff is imposed.

### 4) Infant Industry Argument -

It is the most acceptable argument for protection. This argument rests on the assumption that the country has a latent comparative advantage in the industry or group of industries to be protected.