

Trade issues between developed and developing nations



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Trade Problems 1 Trade Issues between Developed and Developing Nations

Friday, January 22, 2010 Trade Problems 2 There are trade problems that exist for a less developed nation when trading with a more developed nation. These trade problems can prevent the less developed nations from maximizing possible gains from international trade. Some of these problems are temporary and resolved in time, while others are more stubborn and unable to be resolved.

I will discuss the type of issues developing nations come across when trading with developed nations. Developing countries participating in trade lack an organized and strong monetary policy. Developing nations have problems forecasting money demand. Central banks have problems keeping records for managing monetary policy because the banks are not independent of the government. Some developing countries adopt policies such as dollarization, which allows for financial stability and lower inflation.

Inventory problems in developing nations are another issue. In developing countries, inventory may be agricultural products instead of industrial products. Most of the inventory problems have to do with the food security and livelihood of the people. Developing nations have to stabilize food prices and production. They also have to balance the domestic and imported supply of agricultural products. In Mexico, pollution has increased since NAFTA was signed into law and trade between the U. S. and Mexico began.

Despite its governments initial attention to Trade Problems 3 environmental issues associated with economic growth, the government did not follow through on its intentions to take care of the environment. In 1994, " real

spending on environmental protection...declined 45%" (Gallagher, 2004). Further, inspections fell by " 45% over the same period" (Gallagher, 2004). Ten years later, in 2004, there is nothing to suggest that pollution has decreased. If Mexico does not act on protecting its environment, further " environmental degradation" will continue.

With Mexico's comparative advantage of " an abundance of unskilled labor", most firms will stay close to their " production markets" and pay the costs of environmental regulation, which are small, compared to relocating their businesses elsewhere (Gallagher, 2004). Knowing implementing regulations and enforcing them will not jeopardize " direct foreign investment" is one of the most important reasons why Mexico can and should reduce pollution and other " environmental degradation" within its borders (Gallagher, 2004).

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