- as is outlined in the body of this Paper -- that a fixed exchange rate (i.e., a common currency in practice), particularly when accompanied by a free trade agreement, is more appropriate. Without debating the merits of such a system -- see section 4.4 for details -- suffice it to say that national sovereignty is so politically sensitive that the conduct of an independent monetary policy is not likely to be the subject of any negotiating agenda well into the foreseeable future.

5.2.2 Trade Promotion Considerations

Developing Countries

When identifying export markets in developing countries, greater attention could be paid to the level of development in local financial markets and the access local firms have to international capital. At the risk of oversimplifying, developing countries usually have an abundance of labour, and it is a shortage of capital that limits growth. Focusing on countries that have few limitations on the international movement of capital, control their inflation rates without the use of price controls, and are at least beginning to liberalize their financial markets will likely assist in the search for sustainable export markets.[51] [52]

As was mentioned earlier in this Paper, the availability of hedging instruments to alleviate foreign exchange risk is generally limited to established trading partners with large, liquid currency markets. There might be a role for government to assist in providing hedges against more obscure currencies. Perhaps a hedge fund could be set up, allowing firms to pursue new markets previously considered too risky from an exchange rate point of view. To spread the risk even further, pooling it internationally might be an option. Presently, the pattern of trade might be (inefficiently) skewed towards those countries with whom currency risk is most easily managed.

[51] Price controls are regarded as temporary solutions that result in shortages, black markets and inefficient production and consumption.

[52] Inflation usually results in real currency appreciation as governments do not adjust the nominal exchange rate in proportion to inflation in order to avoid price increases for imports and exports. Imports then rise, exports fall and often quantitative restrictions on imports are applied to manage a balance of payments deficit.