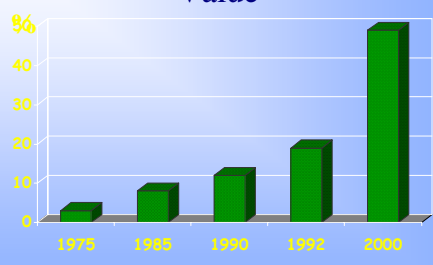


Countertrade

Trade carried out wholly or partially in goods rather than money.



Countertrade as a Share of World Trade Value



Types of Countertrade

- ☛ Barter- direct exchange of goods or services having equivalent values without a cash transaction
- ☛ Counterpurchase: involves 2 simultaneous separate transactions between 2 parties with or without cash
- ☛ Buyback or compensation: involves repayment in the form of goods derived from directly from, or produced by, the technology, plant, or equipment provided by the seller



Types of Countertrade

- ☞ Offsets: involves an arrangement whereby the seller is required to assist in or to arrange for the marketing of products produced by the buying country or to allow some portion of the exported product to be assembled or manufactured by producers located in the buying country.
- ☞ Switch-trading: refers to a switch in the country of destination goods



Countertrade Practice

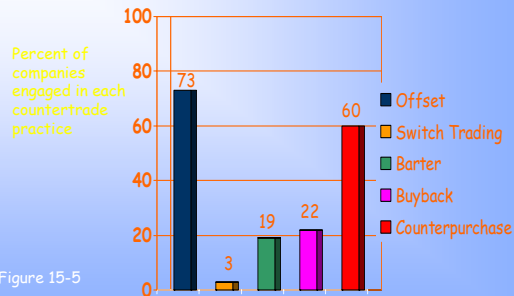


Figure 15-5

McGraw-Hill/Arwin

© 2003 The McGraw-Hill Companies, Inc. All Rights Reserved.

Why countertrade?

- ☞ shortage of hard currency
- ☞ lack of credit
- ☞ BOP problems
- ☞ low commodity prices - low export income
- ☞ surplus capacity
- ☞ arms trade
- ☞ lack of a well developed private sector
- ☞ lack of international trading experience
- ☞ LDCs - low share of manufactured goods I intl trade



Benefits of Countertrade

- ☞ Allows entry into difficult markets
- ☞ Increases company sales
- ☞ Overcomes currency controls & exchange problems
- ☞ Increases sales volume
- ☞ Overcomes credit difficulties
- ☞ Allows fuller use of capacity
- ☞ Allows disposal of declining products
- ☞ Provides sources of attractive inputs
- ☞ Gain competitive edge over competition



Disadvantages of Countertrade

- ☞ No “in house” use of goods offered by customers
- ☞ Time consuming and complex negotiations
- ☞ Uncertainty
- ☞ Increase costs
- ☞ Difficult to resell goods by offsets
- ☞ Brokerage costs
- ☞ Getting businesses in which firm may have no knowledge
- ☞ Risky if commodities are involved



Pros and Cons of Countertrade

- ☞ Gives firms a way to finance an export deal when other means are unavailable.
- ☞ Foreign governments may require it.
 - Helps countries that don't have sufficient foreign currency reserves.
- ☞ However:
 - May involve defective goods.
 - Must invest in in-house trading department - expensive and time consuming.
- ☞ Most attractive to large, diverse multinational enterprises.
