EMERGING PATTERNS OF COUNTERTRADE AS A COMPETITIVE REQUIREMENT IN WORLD TRADE

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ABSTRACT

It is projected that countertrade will involve 50% of all international trade by the year 2000. Presently, over half the trading nations participate in countertrade which accounts for approximately 35% of current international trade. Its causes, alternatives, advantages and disadvantages, and pedagogical implications are discussed and recommendations for defusing its growth are presented and evaluated.

INTRODUCTION

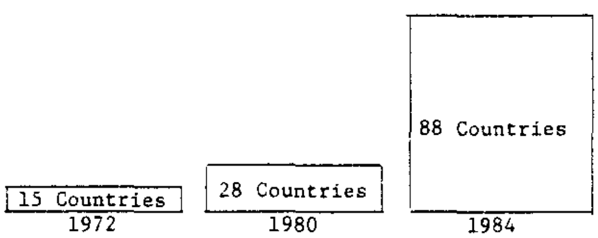
In 1972, only 15 nations were involved in countertrade (CT). Eight years later the number jumped to 28, with Europe representing the majority, followed by South America and a few Pacific Rim nations. By 1986, more than 90 countries requested some form of countertrade arrangement before agreeing to buy U.S. exports (see Table 1). Major additions were from Latin America, the Continent of Africa, the Middle East, and Pacific Rim Countries.

TABLE 1

COUNTERTRADE

Countertrade: A contractual agreement that commits the seller to take payments in goods and services.

Computers and growing monetary instability have boosted barter (countertrade) to about 30% of the world's $2.2 trillion annual business!



Number of countries requiring barter as part of trade arrangment.

These figures from James Walsh, Senior International Economist at the U.S. Department of Commerce, International Trade Administration, Washington,D.C.

Over half of the trading nations of the world rely on CT as a way of maintaining or initiating the flow of goods across their borders. Every year the U.S. Government "offsets" amount to billions of dollars in the sale of weapons systems to other developed countries. CT and offset arrangements for the obligatory exchange of goods and services are truly reshaping the pattern of international trade.

Many countries, especially Latin America, are deeply involved in CT out of necessity, not choice. As debt repayment problems have grown and persisted, the importation of foreign goods has declined drastically. Countries simply lack the cash to purchase goods from abroad. Few, if any, U.S. exporters enjoy selling products or services, no matter how unique or necessary, to these hard-pressed countries when the latter are not willing to release their limited foreign reserve funds without requesting some offsetting obligation from the U.S. supplier.

Countertrade is not seen as a specific term, but as a generic one, and it includes any international sale in which any seller, in addition to safe delivery, must agree to engage in an additional activity which economically enhances the status of the buying country:

Countertrade Includes:

1) Barter - a one-time exchange; no cash payment.
2) Counterpurchase - exporter agrees to purchase or market a percentage of export value in the form of imported goods.
3) Compensation - purchase of a product produced from exported technology, facility, etc.
4) Offset - military or government-to-government; includes licensing, co-production, subcontracting and counter-purchase.

Countertrade Excludes:

1) Bi-lateral Treaty Trading - no funds; balanced accounting of imported goods between nations.
2) Commodity Interchange - ores, metals, petroleum products, etc.

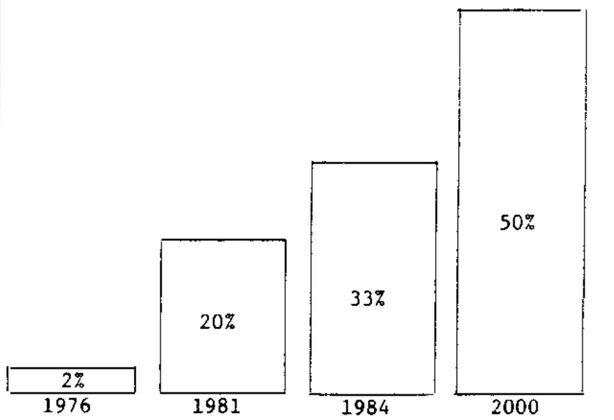
Excluded also from the aforementioned definitions are those goods exchanged under government-to-government bilateral trade treaties and items commonly exchanged between oil and other commodity companies for their own convenience, or to reduce unnecessary transportation, etc.

CAUSES OF COUNTERTRADE

The growing disparity between national resources and the productive ability of various areas of the world are the cause of CT. Many countries are virtually broke. The unlimited credit previously provided to the Third World Countries and Eastern Europe in the 1970's is no longer available. As a result, many nations seek CT as the only way to maintain international trade in the 1980's and beyond. Table 2 depicts the phenomenal growth of countertrade. Immense international debts, increasing trade imbalances and depleted reserve funds occur when the free exchange of goods and services is severely hampered by the lack of natural resources, outdated and non-competitive production facilities, little or no marketing skills and inadequate economic structures. Endemic political and social instabilities exacerbate the di-

TABLE 2

THE PHENOMENAL GROWTH OF COUNTERTRADE



Countertrade, now covering nearly one-third of international trade in goods and services, is projected to involve one-half (50%) of all trade by the year 2000.

lemma. Until the deeply imbedded causes of economic inequality between nations has been eliminated, CT will persist. The obligatory exchange of goods is the only recourse many countries have with which to cope in a world of haves and have-nots. CT may also offer the only way for a country to obtain the technology it so desperately needs to upgrade its manufacturing capability. Relationships are formed wherein a western nation provides the technology and the manufacturing equipment, or the factory, and then agrees to buy back the resultant product under a linked agreement.

It is estimated that the indebtedness of developing countries currently totals an equivalent of $850 billion and, at its present rate of growth, will break the trillion-dollar barrier within the next four years. Developing nations find it difficult to make interest payments and have been forced to reschedule debt, seeking additional credit from commercial banks of the industrial world which are more and more reluctant to extend extra credit lines to debtor countries. As a result, many debtor nations have turned to the International Monetary Fund for assistance. In order to be eligible for IMF aid, a debtor country must agree to strict guidelines which are intended to improve the international balance of payments and reduce trade deficits. These restrictions have a tendency to lead, instead, to a sharp reduction of exports and shortages of hard currency, thus creating high inflation and high unemployment.

Domestic pressures on these debtor governments make them less and less willing to sacrifice their own currency to pay interest on debts incurred by previous leaders. Countertrade offers an escape from this precarious scenario.

NEW ALTERNATIVES

To halt the continuing deterioration of the balance of U.S. trade, exporters must accept the CT obligations in international sales. We, as a nation, must develop a satisfactory response to the question: "What will you accept in exchange besides cash?" Competitors in other countries have made this commitment to enhance their own balance of trade. Further, duplicating the effective CT support systems that already exist in other industrialized lands is needed along with mutual cooperation among all U.S. exporters, plus judicious and restrained assistance from Washington.

Many countries, including France, Austria, Italy, Germany and Sweden, have established national CT support systems offering an array of assistance to their exporters. Only a few large U.S. multinationals, such as Sears, GM and GE, have been able to develop support systems through subsidiaries or a CT department. The U.S. is losing export sales and suffering reduced market opportunitites and reduced profits to foreign competitors who receive government assistance and support. Little of this help is available from the U.S. government.

Indeed, CT is in direct conflict with the U.S. policy of supporting multilateral trade through active membership in the General Agreement in Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD). GATT has 91 contracting countries and its codes apply to behavior of governments, not individual business entities or military trade. Opinions differ in the relationship of the various provisions of GATT to countertrade. The general view, however, is that CT, per se, does not constitute a violation, but that, depending upon the circumstances of a particular case, CT imposed by government law or regulation can be inconsistent with GATT and tend to defeat the primary goal which is to maintain an open, multilateral world trading system. OECD member-country governments are not encouraged to engage in CT, either officially or unofficially. OECD recognizes the economic problems of widespread CT, but member countries have not been able to agree on how to effectively deal with this growing practice. The issue of CT will be addressed this fall when GATT will embark on a new round of multilateral trade negotiations aimed at improving and expanding its rules in an effort to strengthen and further liberalize the international trading system. Thus, each company depends on its own resources for handling compensatory obligations.

The debt problems of developing nations could be alleviated through countertrade loans wich differ from conventional loans in that they are not repaid in hard currency, but in the form of goods or a traded commodity. The interest on the loan would be paid in hard currency. An added protective clause could require that the nation or company cannot pledge more than 60% or 70% of its projected exports to countertrade loans, allowing for a corresponding cushion. The loan repayment would establish that the principal be repaid (indexed to the variation in price) with the country's product or commodity. The index clause as a hedge against inflation and future price fluctuations will not affect the ability to pay off the loan as the principal is reduced by selling the commodity on any futures market. Both bank and investor are protected and the interest rate can be substantially lower.

A number of options are available, but depend on industry's willingness to unite to solve a mutual problem. An organization like France's SODICOMEX, a newly-established French countertrade exchange, could offer American companies the same support and counseling it provides for over 200 French exporters competing abroad.

Another option is a countertrade cooperative consisting of major U.S. companies helping one another discharge their obligatory compensations through individual efforts, or, more effectively, through membership in a CT association/clearing house.

Most U.S. corporations share with the U.S. government a strong concern for this growing restraint on free, multilateral trade and the effect it is having on our trade deficit. Both industry and government need to carefully identify the real issues at stake in CT. Over-reaction and unilateral legislation by Washington alone may prove to be a constraint rather than a benefit to U.S. exporters who compete with sellers in other countries not so constrained by their own governments. Long-range consequences must be measured against short-range benefits along with the impact of transferred technologies. There is, therefore, a strong need for industry and government to develop a workable policy to assure the competitiveness of U.S. firms in a world of growing countertrade.

PLUSES AND MINUSES

Some of the major benefits reported by U.S. exporters are: increased export sales; locating new and lower-cost materials/parts; and developing new, long-term supply sources for critical materials. Other advantages include the freeing of blocked funds and maintaining employment levels. On the negative side, at least one billion dollars in foreign sales has been lost through CT by U.S. companies over the last five years. However, in most cases, the lost revenues were attributed either to their unwillingness to accept the principle of CT or to their inability to find acceptable countertrade goods. Many CT proposals are just non-competitive, going to foreign competitors, not to other U.S. firms. The major reasons include the strong support offered by other governments, regardless of GATT and OECD and their CT associations. A greater agility of foreign sellers to absorb or dispose of the required CT goods was another reason reported.

U.S. firms that accept CT obligations have found that it will allow them to retain their present market shares or, in some cases, even enjoy additional business in new markets. The most heavily requested demands for countertrade are a country's exports with joint-venture/co-production agreements, transfer of technology, buyback of products produced from machinery purchased from the U.S. supplier, goods-for-goods barter, and equity investment in buyer's country. These growing requests come from over 65 countries, with most originating in 15 Latin American nations or in the Pacific Rim/Asian Countries.

MEASURES TO DEFUSE COUNTERTRADE GROWTH

A few domestic recommendations are: the establishment of a national Clearing House/Countertrade Resource Center/Association; the development of a centralized data bank, and the furnishing of government assistance to U.S. firms to fully equip them to compete in CT proposals. On the international side would be the creation of a restraining international code of conduct followed by standardized countertrade terms, acceptable contracts and procedures, agreement on the international limit for the percentage buyback allowed, and the establishment of arbitration procedures.

SUMMARY AND PEDAGOGICAL IMPLICATIONS

Countertrade is now an accepted way of conducting business with over half the trading nations of the world and stems from the inability of countries to offer hard currency to sellers in exchange for their goods and services. The reasons for this paucity of hard cash are many and often beyond the control of the many nations involved, especially the Less-Developed Countries (LDC's). Therefore, it becomes necessary to seek out trading partners who are willing to meet obligations with other than hard money.

In using CT effectively for national purposes, a government may wish to employ the services of a state-trading agency or establish same. This strategy is increasingly being used by major U.S. firms in order to complete successfully in a countertrade environment. Any attempt to control or restrain the growth of CT must be achieved through multilateral agreements (GATT), not unilateral legislation. To do otherwise will sharply limit the competitiveness of U.S. exports.

Countertrade will continue to spread, particularly into more LDC's, adding to the need to develop new marketing strategies. Any anti-countertrade or protectionist legislation affecting the ability of U.S. companies to compete overseas must be drafted with great care and in close cooperation with industry.

Finally, U.S. firms need a forum where they can freely examine mutual CT problems...a forum that increases access and availability to ever-changing information on the economic, political and regulatory restrictions on countertrade...one which will help create a support system equal to that in foreign competitor countries. Otherwise, countertrade will continue to affect our balance of trade unfavorably.

If students are to understand the emerging patterns of how our international trade will be conducted and the impact it will have upon marketing managers in planning strategies, then the concept of countertrade and the growing popularity of barter within our country must be addressed in our marketing courses.

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