COUNTERTRADE IN THIRD WORLD MUTUAL TRADE: SOME NOTES

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South-South trade has increasingly taken the form of countertrade, a phenomenon variously described as representing 'a freeing' 1/ of trade among Third World countries, 'an aberrant feature of the multilateral trading system' 2/ and 'a means of maintaining South-South trade which might otherwise not take place' 3/. The paradox inherent in countertrade is clear. Its alleged aberrancy derives from the fact that it entails many of the restrictive and discriminatory practices associated with the bilaterism of the pre-1939 era and also in the fact that in some instances it allows participants to provide each other preferential terms such as subsidies or discounts which can be kept secret from other partners, but at the same time it represents one of the strictest forms of reciprocity - a principle at the heart of the global trading framework.

The extent of countertrade in Third World mutual trade and within the wider global economy, is subject to a great deal of controversy due to a paucity of reliable data which is further attributable to the secrecy that shrouds much countertrade transactions, especially in the private sector, and the problem of defining or determining what countertrade actually entails. Estimates put forth by GATT indicate that countertrade may constitute some 9 per cent of world trade, excluding bilateral deals with Eastern Europe 4/. Taking into account the fact that some barter transactions among Third World countries is unrecorded in their statistics, the OECD estimates that 10 per cent of mutual Third World trade (worth $12.5 billion) takes the form of countertrade 5/. It is also believed that of all the UN members perhaps only 20 to 30 do not countertrade 6/.

A study 7/ that analyses 1,350 countertrade deals involving the Third World countries between 1980 and 1987 shows a dramatic rise in the number of deals from 18 in 1980 to a peak of 304 in 1985, though slowing somewhat to 272 in 1987. While North-South countertrade accounted for the bulk of such deals (45 per cent), South-South countertrade, with its potential for genuine trade creation, accounted for 34 per cent. One indicator of the importance of the phenomenon in the South is the fact that countertrade practices are increasingly being institutionalized with almost half of all Latin American countries and more than a dozen African countries now having some form of concrete legislation and administrative infrastructure governing such practices 8/.

Countertrade has not been explicitly promoted by the institutions of the Third World (Group of 77 and the Non-aligned movement) on a multilateral basis at the global level nor is its contribution given centrality among the variety of instruments recognized as important for increased intra-

South trade. However, in the wake of the high level of protectionism in global trade, the balance of payments problems and debt crisis facing many countries in the South, countertrade has become an appealing and practical way of trading. In whatever form it takes, countertrade gives Third World countries new ways of financing imports, enables resource-starved countries to conserve foreign exchange as they reduce the availability of export earnings for servicing external debt and also maintain market shares and vital imports of essential goods and services. The upsurge of countertrade as a practice in the South, especially in the 1980s, could be aptly described as a case of the nature of the difficulties in the hegemonic system, that is protectionism, balance of payments disequilibria and the debt crisis, shaping the process of Third World policy initiatives or coordination in the form of unorthodox methods of financing their trade. If countertrade is conceptualized as some sort of palliative for the specific difficulties confronting countries in the hegemonic economic system or de facto cooperation by countries in the South without global institutional coordination, the key question is prescriptive: whether South-South countertrade should be multilateralized or simply allowed to continue in its current phase of informality and marked bilaterism. The major issues, mainly explanatory in nature, to be dealt with in this paper include a review of the forms of countertrade and an assessment of its benefits and costs in the South-South scheme of enhancing mutual trade.

The term 'countertrade' is often defined as a barter transaction or the straight exchange of goods having offsetting values without any flow of cash taking place, but it is a composite term that encompasses a variety of practices with one key ingredient - reciprocity. Countertrade conjures up the idea of rough equivalence in the exchanges involved, tough, as with our understanding of the concept of reciprocity 9/, these exchanges many not necessarily be mutually beneficial. Sometimes the term is seen as a type of 'compensatory arrangement' where the latter concept is defined as 'a whole range of business arrangements (eg. coproduction, subcontracting, technology transfer, investment, and export generation) whereby an exporter contractually commits himself to cause or actually generate desired benefits such as revenues for the importer' 10/.

A countertrade transaction has been defined by the US Department of Commerce as 'one in which seller provides a buyer with deliveries and contractually agrees to purchase goods from the buyer equal to an agreed percentage of the original sales contract value' 11/. Thus countertrade is basically an exchange, and the value of what is exchanged may or may not be comparable, but it also falls within the purview of economic cooperation in the sense that it enables countries involved to coordinate their policies for the realization of their objectives whether it is overcoming the inconvertibility problems of traders' currencies or escaping the shortage of foreign exchange.

Variants of countertrade practices in the South

The first form of countertrade practice is classical or pure barter. This involves an exchange of goods between two parties generally under the same contract usually without any third party involvement nor exchange of money. It should be noted that some forms of barter, tough not

of the 'pure' variety, involve some minimal exchange of cash. Under the pure barter there are no documentary letters of credit: however, in the interest of security, participants may obtain parallel bank guarantees in the form of standby letters of credit, performance bonds, or escrow accounts. Pure barter is often on a government-to-government basis or government sanctioned trade between firms and normally employed by foreign exchange strapped Third World countries in trading their agricultural surpluses.

Examples of classical barter include the 1983 deal under which Gabon supplied China tropical timber in exchange for food products and manufactured consumer goods and a small amount of machinery; Trinidad and Tobago's barter deals with Cuba, Guyana and China and also Ghana's deal with Egypt involving the supply of sawed wood and logs for $5 million worth of cotton threads 12/. Colombia has had a number of barter deals including the 1985 deal with Mexico for the supply of benzoate of methyl, salicylic acid for benzoic acid; 1984 barter agreement with Peru for the supply of meat for fish 13/. Brazilian state-owned companies have struck oil barter deals in recent years. In 1983 the state-owned mining corporation Comopanhia Vale do Rio Doce signed a $40 million deal to supply 300,000 tons of iron ore per year to the Malaysian International Trading Corporation (MITCO) for 10,000 barrels of oil per day; similarly MITCO agreed in 1985 to supply 90,000 barrels of crude petroleum to Interbras (trading subsidiary of the state-owned petroleum company, Petrobras) for items such as chemicals, food, transportation equipment, machinery, iron ore and minerals. Volkswagen do Brazil also reached a $630 million oil deal with Iran to supply automobiles for petroleum 13/. The Ugandan Government, under Yoweri Museveni, has announced barter agreements with Cuba involving the supply of cotton, beans and hides in exchange for sugar, pharmaceutical goods, vehicle batteries and paper; with Libya to supply coffee, tea, cotton, meat, hides and skins for oil, cement, tractors and steel; separate countertrade deals have also been arranged by Uganda with Tanzania, Burkina Faso, Rwanda and Burundi. The government has justified these deals on the basis that half of Uganda's $400 million annual export earnings in hard currency are swallowed up in servicing the country's $1.5 billion foreign debt 14/.

These examples indicate that under this form of countertrade, participants are not necessarily faced with a Hobson's choice but often a sort of 'menu' approach is adopted whereby they select from a basket of goods provided by each side. There are other cases of barter which deviate sharply from pure barter in that they may utilize a regional barter exchange and/or operate through linked cash transactions. The former is exemplified by the 15 East and Central African members of the Preferential Trade Area (PTA) and the Latin American Integration Association (ALADI). Linked cash purchases are usually employed to achieve an even trade balance, with each partner paying the other in hard currency. An example is the 1985 agreement signed by India and Pakistan on reciprocal purchases of Indian wheat and Pakistani rice of equivalent value. 15/.

Countertrade frequently takes the form of counterpurchase, a scheme whereby an exporting country sells to a foreign trade organization and contractually agrees to make reciprocal purchases from that organizat-

ion, or from another commercial agency in the same country, within a specified period of time (often of a short-term duration). It operates through the use of two separate contracts which may be linked by a Protocol. This process protects the original seller because payment for his goods cannot be legally withheld of problems arise in the execution of the second contract. The costs of the countertrade transactions are usually borne by the importing country, including fees and commissions for trading agencies assigned to dispose of the export products and discount on the price of the products exported by the importing country. Since the counterpurchase transaction covers a relatively short period of time, it does not typically involve significant technology. The term 'advance purchase' 16/ is used to describe a counterpurchase whereby the exporting country buys products from the importing country in advance and effects payment through a escrow account.

One type of countertrade that is often cited in the countertrade literature is the use, especially in Third World mutual trade and East-South countertrade transactions of bilateral clearing agreements or accounts. As with pure barter, the compelling reason underlying this form of countertrade is the need to conserve foreign exchange and perhaps achieve an even trade balance. According to Kenton Elderkin and Warren Norquist, a bilateral clearing account operates: 'when two nations agree to exchange goods and services over a period of time (usually a year). No foreign exchange is transferred. The transactions are recorded on the books of the two central banks of each of the respective countries, with some currency such as clearing dollars used as a medium of valuation for the goods exchanged. If the account swing out of balance by a negotiated amount (20 to 30 percent), the trading or creditor nation stops exporting until the debtor nation exports enough to bring the accounts within the agreed upon differential' 17/. The term 'swing' is used in bilateral clearing account to denote the degree of trade imbalance, and, as the Elderkin and Norquist definition indicates, is expressed as a percentage of annual trade volume.

Furthermore, the bilateral clearing agreement indicates the type and volume of products and may additionally list goods or commodities which each side has the option to export to the other for a total agreed value. The mechanism of clearing account is routinely used bilaterally in the South, as in the 1986 reciprocal trade agreement between Zimbabwe and Mozambique which allows for Z$1m in swing credit and the clearing agreement between Angola and Guinea, but similarly employed under the ambit of regional clearing schemes. Other examples of the bilateral variety includes the 1986 bilateral clearing agreement between Egypt and Jordan which entailed Jordan supplying 1.5m tons of cement in return for 10,000 - 15,000 tons of rice 13/. In 1983 Brazil arranged bilateral clearing agreements with Mexico, Venezuela and Iran.

When multilateral in scope, these agreements often have an expanded objective of minimizing the use of convertible currencies through the use of local currencies for transactions between clearing house members, and also the extension of credit as a result of delayed settlement of transactions. The multilateral emphasis on clearing agreements is borne out by the fact that by the end of March 1985 nine clearing houses operated in the Third World, as follows: West African Clearing House; the Region-

al Cooperation for Development Union for Multilateral Payments (RCD); the Preferential Trade Area Clearing House of Eastern and Southern African States (PTA), the Asian Clearing Union (ACU); the CARICOM Multilateral Clearing Facility; the Payments and Reciprocal Credit System; the Great Lakes Economic Community Monetary Arrangement; the Central African Clearing House; the Central American Clearing House 18/.

When countries adopt bilateral clearing arrangements they can use a form of countertrade termed Switch Trading to bring the account into balance, that is, in cases where one party has taken a greater value of goods than the other. Briefly, it permits trading partners to switch the excess balance to third parties, enabling such parties to acquire rights to buy goods from the country or countries with a clearing account deficit. As described by Pompiliu Verzariu, 'switch trade is based on the multilateral use of bilateral clearing currencies, and is made possible by a stipulation in a bilateral agreement providing that the country with a surplus in bilateral trade could make available to a third party a portion or all of its clearing account' 19/. Two important facets of switch trading are noteworthy, first, the prices of the goods transferred to the third parties are substantially discounted from the nominal values, assigned to them in the clearing agreement, second, the switch deals are often handled through intermediaries such as speciality traders and trading houses.

There is a whole gamut of industrial and commercial compensation practices otherwise termed offset that are required as condition of purchase in countertrade deals involving high value civilian procurements or military-related exports. Offsets are either direct or indirect, with the former applying in cases where an exporter agrees to buy the components to be used in the production of the export products sold to the importing country; and the latter designating cases where the exporter agrees to purchase goods and services not related to the product. An example of direct offset is the 1984 deal between Malaysia and Korea involving the supply of Korean naval patrol boats for crude petroleum, refined pump oils, sawn timber, rubber gloves and cocoa powder 13/. Some common direct offset arrangements include subcontractor production, coproduction, licensed production, foreign investment and technology transfer, while indirect offsets include tourism development, counterpurchase or the use of the country's airlines, insurance companies, hotels, etc. Closely related to offsets are buy-back agreements, which in dollars value are said to be the fastest growing form of countertrade in the global economy 20/. Under this form of countertrade, as described by Alexandrides and Bowers, 'the selling company provides turnkey production facilities instead of taking counterdelivered goods from the buyer country. The exporter builds a plant in the buyer country, provides technology and equipment, and agrees to buy back all or a portion of the products produced' 13/.

Motivations for countertrade in the South

Inevitably the rational for the pursuit of countertrade by Third World countries, as with the use of this phenomenon in the aftermath of the breakdown of the international trade and payments system in the 1930-1933 period 21/, has to be seen as a response by the Sour' to the

illiquidity and worsening debt crisis, fluctuations in export prices of commodities, constriction in multilateral and commercial bank lending and other crisis in the hegemonic economic order. For a variety of reasons, Third World countertrade has also been pursued as a reflection of increased economic nationalism, however with the unintended benefit of closer development of horizontal South-South links and policy coordination in the issue-areas of trade and finance. Consequently, Third World motivations for countertrade delineated here are largely an interplay of factors inherent in the global economy and those that arise out of national expediency and the maturation of economic and political nationalism and regional multilaterism.

One of the primary reasons for countertrade in recent years has been the sharp deterioration in the external debt position of many countries. The debt problem has occasioned in its wake a general liquidity crisis and a lack of adequate external financing and countries with accumulated interest arrears paying heavy costs in the form of reduced trade credits and damaged trade relationships. Faced with this intolerable debt burden and the risks associated with it, countertrade becomes an attractive option for countries seeking to conserve foreign exchange. Where countries set strict limit on the availability of convertible currency reserves, the use of countertrade is perceived as an additional instrument for increasing import possibilities. At another level, as part of debt rescheduling, many countries have had to submit their economies to IMF structural adjustment and austerity programmes which often entail demands for the reduction of imports. The use of countertrade enables high debtor countries to conceal foreign exchange that would be used debt servicing, in the sense that under barter imports are linked to exports.

It has also been suggested that by giving countries new ways of financing imports, countertrade may also add to their bargaining power in debt negotiations 1/. The OECD in its Countertrade report 5/ establishes a temporal correlation between countertrade practices and the deteriorating liquidity crisis in the Third World. Indonesia, one of the top five Third World country countertraders together with India, China, Brazil and Iran, after experiencing a marked current account imbalance in 1981 made countertrade mandatory for government procurement at the end of that year. Similarly, requests for commercial compensation in Brazil and Mexico increased shortly after external imbalances started to deteriorate in 1979. Some Third World countries have settled their debt to other Third World countries through goods-for-debt schemes. This works like barter only that goods are supplied in repayment of debt. Examples include Mexico's repayment of a loan from Venezuela in oil and Libya partially paying Indian and Korean contractors with oil 22/.

Governments in the South often employ countertrade when faced with protectionism in the form of quota and tariff restrictions. According to Alexandrides and Bowers, protectionism used by industrialized countries against manufactured exports of Third World countries have encouraged countertrade in two ways: 'by reinforcing trade management practices, and by diminishing export income of the Third World countries, thereby contributing to their debt problems 13/. If countertrade helps Third World countries to circumvent protectionism and boost exports, it is also used in the South-South context as a means of diversifying export

market, tapping non-traditional markets and exporting non-traditional products and as an export promotion tool and permitting interregional trade. Another motivating factor deriving from the operation of the hegemonic system has been the commodity price fluctuations and frequent cycles of low prices and hence the perception by Third World countries that countertrade offers them an avenue for greater stability by enabling them to exchange primary commodities for essential imports. Recourse to countertrade becomes practicable for some Third World countries in situations where their export products are confronted with a saturated market or other cyclical problems. Through the use of discount and/or other preferential measures, countertrade would enable such countries to regularise trade flows and maintain a competitive trading position.

Countertrade practices are often used by Third World countries with less consideration for global trading and/or financial constraints but rather out of pure national necessity and for country-specific reasons. Some governments like Indonesia and Malaysia have pursued countertrade in the context of meeting the objectives of development strategies. The Government of Indonesia in January 1982 through its Department of Trade and Cooperatives introduced guidelines (Guidelines for the Implementation of Linking Government Procurement from Imports with Indonesia Export Products Excluding Petroleum and Natural Gas) requiring foreign suppliers awarded government contracts above 500 million rupiah (about $700,000) to undertake - with procurements financed by the World Bank, the Asian Development Bank and the Islamic Development Bank, as well as the domestic procurement portion of foreign contracts, professional services and joint projects being exempted - in addition to normal trade transactions, the export of about 30 preselected products for countertrade deals 5/10/. The underlying expectation was for $8 billion in government projects to be subject to countertrade requirements through the development plan which ended in 1984, though because of changes in public investment schedules only about $1.7 billion was subject to counterpurchase through 1984 23/. In the case of Malaysia, the Government in 1982 issued formal countertrade guidelines with a view to achieving a number of objectives: additionality of exports; development of new export markets; increased access to markets where protectionism or competition had hindered the growth of Malaysian exports, primarily industrial country markets; diversification of exports; promotion of non-traditional, high-value-added exports, primarily manufactures and semi-manufactures; maintenance of market share for traditional exports; facilitation of exports to countries with foreign exchange shortages. As part of this concerted countertrade policy, the Malaysian Government created a special countertrade unit within its Ministry of Trade and Industry (Unit Khas Countertrade) charged with the evaluation and approval of countertrade proposals.

Some Third World governments have used countertrade purposely to impose austerity, that is curtail imports when faced with a deteriorating balance of trade situation. This may be done to avoid some of the transparent costs associated with direct forms of import control. As David B. Yoffie points out 'while more effective in reducing imports than countertrade regulations, direct controls impose transparent costs on the economy. The advantage of countertrade to the government is that the

cost of the government regulations are not transparent, which lessens the political cost of an austerity program' 24/. An example of this rationale is the Countertrade Policy of the Columbian Government governed by Decree N°370 of 1984 until subsequently superceded by Decree N°3707 of January 1986. The former introduced after balance-of-payments difficulties in 1983 imposed a substantial counterpurchase requirements of as much as 200 percent of imports. Decree N°3707 basically permits imports of prohibited and low priority items on condition that Columbian exports are purchased.

Evaluation of countertrade: costs and benefits

Whatever the rationale, it seems logical to suggest that Third World countries enter into countertrade deals with the assessment, perhaps assumption that the expected benefits would outweigh the transaction costs. It is also apparent that governments and other proponents of countertrade tend to underestimate the potential difficulties and problems raised by countertrade and the costs involved. The future of countertrade as an instrument for narrowing the hiatus that exists between actual and potential Third World mutual trade and the related question of whether it should be multilateralized on a global basis for the South, rests on an evaluation of the benefits and costs entailed by its employment. Attempting such an evaluation, it should be stated as a caveat, is problematical at best, considering the difficulty of getting accurate statistical information especially country-level analysis of the impact of countertrade.

The widespread use of countertrade in the Third World would seem to suggest that countries involved view it as beneficial or maybe overlook the transaction liabilities, but the prescriptive issue, of whether it should be multilateralised or not, while admittedly dependent on an evaluation of costs and benefits, is perhaps a moot point for one basic reason: countertrade is an approach to South-South trade whose implementation and use did not involve the prodding of Third World institutional units, in other words countertrade exemplifies a kind of bottom-up approach whereby governments in the Third World have been the initiators of policy with the institutional units having to contend with its implication and potential. Unlike the Global System of Trade Preferences - largely a product of the initiative of Third World institutional units and subsequent negotiations carried out by Third World governments, the phenomenon of countertrade has blossomed in its various forms through concrete actions of Third World governments and the institutional units compelled to respond rather than playing an initiatory role.

The benefits of countertrade are multifarious, as noted from the motivations often cited by governments for engaging in it, but these benefits are for some governments a matter of perception in the absence of a cogent quantification of the balance between costs and benefits. To speak of 'perceived benefits' is to recognize the secrecy that characterise some countertrade transactions and the attendant tendency for issues of costs and benefits to be either overrated or downplayed for political and/or administrative convenience. It is this difficulty that prompted an executive to suggest that countertrade has a 'high baloney

content' 25/. In short, the problem mentioned earlier, of assessing the extent of countertrade equally affects any evaluation of costs and benefits.

One of the perceived benefits of countertrade is that of trade creation, and to the extent that it relates to bridging the gap between actual and potential trade flows, makes it an attractive option for generating mutual Third World trade that would otherwise not occur. A study done by the OECD on the impact of barter trade on six Third World countries during the period 1950-1976 concluded, by looking at the contribution of barter in terms of trade creation or diversion, expansion of exports and imports, diversification of export structure and change in terms of trade, that barter trade contributed to some extent to expansion of imports and exports, tough much of the growth in barter resulted from a diversion of trade from 'normal' multilateral to barter-like trading partners 26/. Trade diversion could either be positive or negative depending on a country's priorities. In other words a Third World country could conceivably pursue countertrade to divert trade from the historically-evolved vertical trade patterns to a more horizontal South-South trade channels. The obverse of this situation, as shown by Leland Yeager with reference to post-1945 european bilateral trade agreements 27/, results from the fact that countertrade as a form of discriminatory trade, could create trade but could also divert trade from cheaper sources of supply. Another potential benefit, as noted previously, is that in countries faced with a foreign exchange shortage and with non-convertible currencies can maintain or even increase trade among themselves through the use of countertrade measures such as bilateral clearing arrangements. The argument, also noted earlier, is that countries can exchange their export products for much needed imports and thereby conserve convertible currency that would otherwise have been used for the purchase of imported goods. However, as Bruce Fitzgerald cautions, 'mandatory countertrade probably (emphasis added) drains foreign exchange by increasing transaction costs and reducing competition, so that a nation pays more for its imports and receives less for its exports' 23/.

As noted previously, countertrade has punctuated normal trading contacts within Third World regional preferential agreements such as the Preferential Trade Area for Eastern and Southern Africa (established with the primary objective of the reduction and eventual elimination of tariff and non-tariff barriers among its members) and the Latin American Integration Association (established by the 1980 Montevideo Treaty as an area of economic preferences, partial scope trade agreements). The benefits of such multilateral interregional countertrade or even bilateral countertrade within preferential trading schemes include the easing of foreign exchange difficulties obtaining trade credit and the use of barter for ensuring regional food security. In their report to the UNCTAD secretariat, a group of consultants on ECDC in Trade and Finance have indicated that if employed as an additional and complementary instrument, countertrade 'could also contribute to strengthening a rational process of interregional import substitution among Third World countries and could help to ensure a better balance in the trade relations among the more advanced and relatively less developed among Third World countries' 18/.

Some perceived benefits of countertrade have been mentioned in conjunction with the idea of 'control' or sovereignty over economic decision-making, which extends to control in external trading issues such as stabilisation of export revenues, new market penetration, the cultivation of opportune trade patterns and balancing of trade. The exercise of control in the domestic realm and over external economic factors derives from the perception that countertrade fosters stability in industrial planning, terms of trade support, diversified trade relations, a new 'partnership' with transnational corporations, bilateral balance and disguised austerity programmes' 28/.

The notion of Third World countries exercising control over trade, albeit outside the GATT system, is an engaging argument for the multilateralisation of countertrade in the South. If countertrade is managed under a multilateralised framework that is at the interregional level, it could conceivably grant Third World countries with a bastion of trading practices, potentially challenging to the global trading rules, from which changes to the constituent elements of the hegemonic regime could be launched and perhaps such restructuring hastened. In short, multilateralisation of countertrade is congruent with the end of collective self-reliance - that is, the restructuring of the global economic system. Furthermore, since the conclusion of a GSTP among Third World countries is evidence of the importance of multilateral instruments for promoting Third World mutual trade, the multilateralisation of countertrade would be a step in the same direction and also stifle the bilateralism that characterises much Third World trade and enhance the trade complementarity and trade possibilities of the Third World.

As with the benefits, the costs of countertrade are often hidden, underestimated or simply ignored by proponents of countertrade. One issue that frequently crops up, but difficult to quantify, in the evaluation of countertrade, similar to the ascertaining of its trade creation or diversion potential, relates to its macro-economic impact on overall exports otherwise called the 'issue of additionality'. The basic question to be straightforwardly posed is: Does countertrade promote exports? While proponents of countertrade cite the trade creating possibilities under countertrade, and the fact that countries can use countertrade to increase exports above the level permitted by foreign markets, there is the other argument noted by T.C. Kopinski that 'a mandated countertrade policy does not result in additional exports, but rather in the shifting of the structure of a country's exports, in all likelihood to its economic disadvantage' 12/. The issue of additionality may depend on the country in question, its trade partners and even the type of countertrade deal used.

Pricing in countertrade transactions can sometimes leave much to be desired. The lack of transparency in the pricing of countertrade is a serious problem. Prices often fluctuate from one order to the other and also goods are often sold either at lower, nominal or undisclosed prices. In addition, as T.C. Kopinski points out, 'to the extent that countertrade does distort price structures, this may negatively affect the internal allocation of domestic resources. High factor prices in a particular sector could be interpreted as an opportunity for further investment in that sector or alternatively they could lead to incorrect

evaluation of projects that utilize inputs or capital goods purchased at prices that diverge significantly from those on the open market'. Another related problem, according to Kopinski, often not recognized, is that 'the prices of countertrade transactions must also incorporate a share of the partner's administrative, legal and technical costs - expended not only on the one particular deal, but also on the identification and negotiations of other countertrade transactions that may never come to fruition: this cost can be considerable, given the fact that the success ratio of deals explored to deals completed is very low'.

Countertrade can be risky business for countries without the requisite background and/or marketing skills. These risks may range from quality of goods, uncertainties about long-term availability of products, concern about whether the necessary approvals for linking imports and exports will be fulfilled to political instability. As one scholar points out 'risks increase with the duration of the deal as countertrade arrangements extend over several years' 29/. Countertrade practices often require some form of institutionalization or bureaucratic requirements outside those established for normal trade. The institutions such as the Unit Khas Countertrade in Malaysia and the Department of Promotion and Markets (the Countertrade Unit of Brazil's Carteira do Comercio Exterior) offer the administrative framework for effective evaluation and approval of countertrade deals. For many Third World countries development of new institutions is a drain on national coffers and obviously a cost of scarce administrative resources. The absence of legislation or administrative infrastructure could mean interminable delays in putting deals through the existing system. Where trading companies are used in countertrade deals, Third World countries have to contend with transaction costs such as fees and commissions, normally in the range of 1-3 percent of the total value of the countertrade commitment, though this figure may be higher depending on the nature of the deal.

Countertrade will likely remain a feature of Third World mutual trade as long as the perception persists in the Third World that it is a positive-sum adjustment or response by participants to the crisis of illiquidity, protectionism and other structural problems within the global economy. It is in this sense of conceptualizing Third World countertrade as crisis-driven that any suggestion of aberrancy is not only inapt but does not take into account the fact that weak states, acting from the perception of structural inequities in global trade, would embark on policies deemed necessary to overcome the difficulties of the existing system. The use of countertrade in South-South trade is beneficial to the extent that it engenders bilateral and/or multilateral cooperation, and in a significant way contributes to extricating Third World countries from the 'colonial' trade directionality. In a sense, countertrade affords Third World countries the opportunity to play a double game, that is, work with the North for trade liberalisation (eg. the Uruguay Round) while at the same time using countertrade in conjunction with their own multilateral treaty (GSTP) to build up greater mutual trade.

Notes

1. Frances Stewart, 'Countertrade: an assessment' in World Development: Risks and Opportunities (Rome: SID 18th World Conference Proceedings 1985) p5.

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3. Helga Hoffman, 'Countertrade: Hard times option for the South?', Cooperation South (N°2, 1987) p12.
4. The GATT estimate cited in Countertrade: Background note by the UNCTAD Secretariat (UNCTAD doc. TD/B/C.7/82) p3.
5. OECD Secretariat, Countertrade: Developing Country Practices (Paris: OECD, 1985).
6. cf. Herbert Stepic, 'Principal changes in Countertrade practice with selected countries after the Polish crisis', Countertrade and Barter Quarterly (May 1984) p24.
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9. cf. Robert O. Keohane, 'Reciprocity in international relations', International Organization (Vol 40, N°1, Winter 1986) p8.
10. cf. Pompiliu Verzariu, Countertrade, Barter and Offsets: New strategies for profit in international trade (New York: McGraw-Hill, 1985) p4; 57-64.
11. US Department of Commerce, East-West Countertrade Practices (Washington: US Government Printing Office, 1978) p3.
12. T.C. Kopinski, Countertrade Policies and Practices by selected African and Latin American Countries, p18; 43; 19; 12; 11; 10.
13. Costas Alexandrides and B.L. Bowers, Countertrade, Strategies and Tactics (New York: John Wiley, 1987) p.178; 149; 158; 186-7; 16.
14. cf. Report on Business, 'Barter solving Uganda's foreign exchange shortfall', Globe and Mail (Wednesday 17.12.86) p B24.
15. cf. Michael Morrison, 'Examples of contemporary countertrade' in Robert Pringle (ed) Countertrade in the World Economy, op.cit. p29.
16. This form of counterpurchase is identified in UNCTAD, Countertrade, op.cit. p5.
17. Kenton W. Elderkin and Warren E. Norquist, Creative Countertrade: A Guide to Business Worldwide (*Cambridge*, Mass: *Ballinger Publishing*, 1987) p10; 36.
18. Cf. UNCTAD, South-South Trade and Finance: Strengthening the Weakest Link (Geneva: 1986) p31; 81.
19. Pompiliu Verzariu, Countertrade, Barter and Offsets, op.cit. p34.
20. cf. Leo Welt, Countertrade: Practices for Today's World Market (New York: American Management Associations Publications Division, 1982) p18.
21. cf. P.M. Andersen, Bilateral Exchange Clearing Policy (London: 1946).
22. These examples of goods-for-debt are cited in Helga Hoffman, cf. note 3.
23. cf. Bruce Fitzgerald, 'Countertrade Reconsidered', Finance and Development (Vol 24, N°2, June 1987) p47; 48.
24. cf. David B. Yoffie, 'What motivates countertrade?', in Robert Pringle (ed) Countertrade in the World Economy, op.cit. pp21-22.
25. This statement was made by Fred Tarter, President of Deerfield Communications, 'Countertrade the corporate experience' (Countertrade Seminar, World Trade Centre, New York, 16-17 December, 1985) cited in Elderkin and Norquist, op.cit. p36.
26. cf. Ingelis Outters-Jaeger, The Development Impact of Barter in Developing Countries (Paris: OECD, 1979).
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