Chapter 1 INTRODUCTION

1.1. Background

There are almost as many definitions of countertrade as there are commentators on the subject, but in broad terms it may be defined as reciprocal trade involving two or more countries. A more in-depth approach to defining the subject is presented in Section 3.1.

There are just as many arguments about the proportion of world trade that is now carried on through countertrade arrangements. Quite apart from definitional problems which impact upon the question of relative importance, it is also an unanswerable question because of the lack of any comprehensive statistical base. However, most trade analysts now seem to agree that, according to the definition of countertrade which is adopted, somewhere between 5 and 20 per cent of world trade is conducted on this basis.

1.2. The Purpose of the Guidelines

The purpose of these guidelines is to provide information and advice on countertrade for Commonwealth developing countries, recognising that the need for assistance is greatest for those with limited countertrade experience. Some countries, such as Malaysia, are very experienced indeed but there are other Commonwealth members, many of them in Africa and the Caribbean, which have seldom engaged in reciprocal trading practices. Such countries are referred to as the target group of countries in this manual.

The general approach adopted is to view countertrade from a developing country perspective, which contrasts these guidelines with most of the published works on countertrade, which adopt the standpoint of exporters or governments in industrialised countries.

It is not the purpose of these guidelines to cover all the philosophical or macroeconomic arguments regarding the relative merits of multilateral and bilateral trade. These arguments, both pro and con, have been elaborated in numerous books, reports, articles and papers, some of which are listed in the Annotated Bibliography (Appendix 3).

On the basis of these arguments, some countries may have decided to avoid countertrade altogether. Most countries, however, are at least willing to consider the possibility of engaging in the practice. This is the starting point for the guidelines, which then proceed to take a very practical view of the subject, examining advantages and disadvantages for countries in differing economic circumstances. They are not "pro-countertrade", but attempt to explain how to obtain the best results from an imperfect trading system.

It is also not the purpose of these guidelines to provide blueprints of how to do countertrade deals. Any such attempt would be doomed to failure because there are an almost endless number of possible variations and the recipe for success in one country may be altogether different in another. However, there are a number of issues which are common to most countries which engage in the practice, and a full discussion of these issues is provided so that policy-makers in developing countries can interpret them in the light of their own particular circumstances.

The main intended audience is policy-makers in developing countries. They need to consider countertrade at two levels:

(i) Devising a national policy.
(ii) Originating, or responding to, particular proposals for countertrade deals.

There is considerable overlap in the issues to be considered at each level and they are therefore discussed without separation.

The guidelines are also intended for use by organisations in developing countries which are actively involved in the conduct of countertrade deals.

1.3. The Content of the Guidelines

The guidelines are organised on the basis of chapters each dealing with a set of major countertrade issues. Chapter 2 is concerned with a number of general issues and strategy choices for developing countries. Chapter 3 describes the various forms of countertrade and gives some examples of different types. Chapter 4 looks at the fundamentally important issue of the trading impact of countertrade. Chapter 5 discusses the production, as opposed to purely trading, aspects of countertrade. Chapter 6 is concerned with the question of the incremental costs which arise through countertrade and ways of limiting them. Chapter 7 is a major chapter dealing with contracts, contractual issues and the financial aspects of countertrade. Chapter 8 examines the question of how developing countries should organise themselves for countertrade. Chapter 9 gives information on the sources of countertrade advice and assistance. Chapter 10 provides comments on the often ignored subject of the research requirements for countertrade, plus monitoring and evaluation procedures. Chapter 11 contains checklists. Supporting documents and further background information are given in the Appendices.