Chapter 8 ORGANISATIONAL AND OPERATIONAL POLICY OPTIONS FOR DEVELOPING COUNTRIES

8.1. Introduction

The topic for this section concerns the question - how should developing countries organise themselves for countertrade?

Some governments take virtually no action on policy and organisational questions and this creates confusion both in their own countries and amongst potential foreign countertrade partners. Many developing countries have expressed a general willingness to consider countertrade, without creating a structure through which potential deals may be negotiated, agreed and implemented.

A particular problem concerns the location of decision-making power within the government sector in a particular country on countertrade matters. In other words - who makes the decisions: the Ministry of Trade, the Ministry of Finance, the Central Bank, some other Ministry, or a combination of all of them?

Without clear policy guidelines on such questions, and without an organisational system for countertrade being created, it is often necessary to "reinvent the wheel" for every potential deal, resulting in confusion and delay for all concerned. Very often potential foreign countertrade partners will not even contemplate initiating countertrade discussions unless the policy guidelines and the mechanism for implementing countertrade are known.

8.2. Countertrade Policy and Implementation Procedures

Presumably, the first step for any government in relation to countertrade is to consider the macroeconomic arguments. Having done that, and if the result is that countertrade is to be encouraged, or at least allowed, it is necessary to start building a policy framework within which countertrade can effectively function. Various matters, including the political orientation of the government, play a part in policy development, but these are questions affecting individual governments whereas the issues raised below are common to all situations.

The common components of countertrade policy and implementation procedures are discussed under the following points.

(i) A government should establish policy guidelines for countertrade, at least giving some broad outline of policy. Some developing countries have published guidelines.

Example
The Ministry of Trade and Industry of Malaysia has published two short booklets entitled "Countertrade Anyone?" and "Countertrade in Government Procurement" which set out the Malaysian position on countertrade.

(ii) A government may announce, publish or make known a range of other information on countertrade which supplements the broad outline of policy already mentioned. Such additional information may be changed at intervals according to economic or other circumstances.

Example
Various countries have lists of products, either for export or for import, which may be allowed for countertrade. Further information may be provided in particular cases; for example, the Government of Zimbabwe sometimes makes announcements to the Zimbabwean industrial sector of import opportunities that may be available through countertrade deals.

(iii) A government should make arrangements to establish the required government machinery for the consideration of proposed deals. Without a focal point within the government sector which is charged with the responsibility of receiving and considering countertrade proposals, it is very difficult for internal or external parties, particularly in the case of proposals for ad hoc deals, to make any progress.

Example
Sometimes a particular unit within a Ministry may be given this responsibility, such as Unit Khas Countertrade in the Ministry of Trade and Industry of Malaysia, or a special committee composed of representatives of various Ministries may be created, such as the Special Trading Arrangements Committee (STAC) of Zimbabwe (refer to Appendix 5).

(iv) A government should clearly locate decision-making power for countertrade. Very often the unit or committee which has the responsibility for receiving and considering proposals does not have the power to make decisions.

Example
The STAC of Zimbabwe makes recommendations to the Permanent Secretary and the Minister of Trade and Commerce who make the final decisions on whether or not to proceed with particular deals.

(v) Prior to embarking on a policy of encouraging countertrade, a government should take action to overcome known problems which will hinder, or sometimes make impossible, the successful negotiation and completion of deals.

Example
A common problem in many developing countries is that exchange control regulations require full remittance of export earnings in foreign exchange to the Central Bank. This prohibits, for example, holding funds offshore in an escrow account, and, if this facility is required, government action is needed to make provision for allowing such operations in particular cases.

(vi) A government should make known which organisations are approved for countertrade implementation. This may involve identifying particular parastatal organisations or, instead, may be based on giving authority to the private sector, within the policy established by government, to proceed with countertrade. It is usual to make a clear separation between policy and implementation. Policy is seen to be the responsibility of government, or a particular government department, whereas responsibility for the implementation of deals, particularly the trading aspects, is usually placed in the hands of particular parastatal organisations or the private sector.

Example

The implementation of countertrade deals in India is usually placed in the hands of a parastatal organisation, either the State Trading Corporation of India (STC) or the Minerals and Metals Trading Corporation of India (MMTC).

Those developing countries which lack either a suitable parastatal organisation or private sector companies with the appropriate countertrade experience are likely to have to rely more heavily on the services of international trading companies.

Some countries have actively tried to encourage the participation of their own national companies in countertrade deals by creating preferential terms for local companies. Malaysia, for example, as noted in Appendix 5, has taken some steps to favour Malaysian registered companies as assignees in countertrade deals.