The World Economy, Volume 6, Issue 2, June 1983, Pages: 159-182

The Economics and Politics of Countertrade

Gary Banks

'The Communist countries and many developing nations feel nowadays that countertrade transactions are a must for the time being in order to reduce trade deficits, foster exports, permit financing of domestic capital projects and minimize outlays of scarce hard currency'

— *Countertrade Practices in East Europe, the Soviet Union and China* (Washington: United States Department of Commerce, 1980)

'Those transactions, known as countertrade, now account for an estimated 25 per cent to 30 per cent of total world trade'

— *Business Week*, New York, 19 July 1982

THE WORD 'countertrade' has only recently entered the jargon of international trade.[1] It is being used to cover a multitude of particular commercial arrangements with a bewildering array of names — counter-purchase, buy-back, switch, offsets, parallel trade and so on. What they all share is the explicit linking of import and export transactions between two traders; in short, barter.

The growing usage of countertrade jargon apparently reflects the rising importance of the activity itself. Almost every week there are reports of some country or company becoming involved in countertrade. What is of especial interest is the fact that much of the growing barter activity is said to involve private firms in industrial countries (the 'West') in their trade not only with the Eastern bloc[2] but also with developing countries.

In the last year or two, articles about countertrade have been regularly appearing in financial newspapers and periodicals, as well as in international law journals. In addition, various official bodies, such as the Organisation for Economic Cooperation and Development (OECD), the United Nations and national administrations, have published reports on the subject. In this literature

GARY BANKS: an Economist in the Economic Research and Analysis Unit, Secretariat of the General Agreement on Tariffs and Trade (GATT), Geneva; previously Principal Research Economist at the Industries Assistance Commission, in Canberra, Australia, and Lecturer in Economics, Faculty of Military Studies, University of New South Wales.

can be found opposing views on the role and implications of the 'return to barter'. Its detractors argue that it represents a threat to the liberal trade order as well as to the economic well-being of the West. Its proponents (or apologists) argue that it has become a necessary expedient to facilitate the development process in many countries and that it will actually permit an expansion of world trade. Both groups seem to agree that it is here to stay.

WHAT IS COUNTERTRADE AND WHO DOES IT?

The Department of Commerce in the United States has defined a countertrade transaction as 'one in which a 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'.[3] The distinguishing characteristic of countertrade is that it is an *ad hoc*, transaction-by-transaction form of barter. In this respect, it is more akin to the barter of medieval times than that which arose in the early 1930s, when much of Europe's trade was conducted under bilateral-clearing arrangements and other trade-balancing agreements between governments. This distinction needs to be emphasised, for it has been the source of some confusion in the literature.

There appear to be three more or less distinct types of countertrade which differ from each other principally in relation to (i) the nature of the goods traded, (ii) the extent to which the trade flows offset one another and (iii) the length of time needed to complete both transactions.

'Classical' Barter

This denotes a once-only transaction which is bound by a single contract that specifies the goods to be exchanged to an equivalent value. Of all forms of countertrade, it is closest to the traditional pure barter, except that today money is normally used. The need for bridging finance is minimised, however, by the approximate simultaneity of the trade flows. Such transactions can be between private parties, but often they involve state-trading agencies on one or both sides. The products are generally homogeneous, enabling quality and volume to be easily verified.

Some examples of *ad hoc* transactions of this type in 1982 include the powdered-milk-for-bauxite deal negotiated between the United States and Jamaica and the lamb-for-oil deal negotiated between the New Zealand Meat Board and the Iranian Government. (An earlier and more exotic example involved an attempt by Mongolia to exchange a 150 million-year-old dinosaur skeleton for a consignment of West German automobiles, apparently unsuccessfully.[4])

Counter-purchase Arrangements

In a 'counter-purchase' transaction the initial exporter must buy goods which need bear no relation to those which his own firm produces. The two sales agreements are negotiated together, but while the first one is typically a standard sales contract indistinguishable from those used in normal foreign trade transactions, the second one can take a variety of forms — ranging from a similar 'standard' contract with merchandise type, quantity, quality and price all specified to a general commitment to buy any goods among those which may be available. The agreement generally specifies that the value of the second transaction should be a certain percentage of that of the first one and, in addition, there may be a pricing formula (such as 'the recognised international price at the time of purchase'). The second transaction must usually be completed within a period of three to five years. Counter-purchase deals are generally conducted between a government trader (the initiator in almost all cases) and a private firm. Two recent examples are described below.

Volkswagen, of West Germany, sold 10,000 automobiles to East Germany in 1977, undertaking to buy in return selected East German goods (including coal, oil and machinery) to an equivalent value within the next two years. Volkswagen was paid for the initial consignment of motor cars in German marks which it in effect used for the subsequent purchases.[5]

The Government of Indonesia instituted a comprehensive counter-purchase scheme in January 1982 which required foreign suppliers to the Government to buy Indonesian goods equivalent in value to the materials they bring into the country. A bank guarantee equal to 50 per cent of the transaction value must be deposited in Indonesia and, under the terms of the counter-purchase agreement, is liable to confiscation in case of default by the foreign firm. Further stipulations in the contract are (i) that the counter-purchases should be over and above what otherwise would have been bought and (ii) that goods must not be re-sold in third markets. The first transaction under this new scheme took place in August 1982 with a $128 million purchase of fertilizer.[6]

Buy-back Transactions

Barter transactions of the 'buy-back' type involve repayment in products which are derived from those in the initial sale. This typically arises in connection with a sale of industrial or mining plant, equipment or technology, with the exporter undertaking to import the resulting production. Apart from the 'derived' nature of the trade, buy-back deals generally differ from counter-purchase transactions in that the sums involved are much larger and the contract period longer (ten to twenty years). In addition, the value of the 'buy-back' commitment is usually greater than that of the original export transaction, whereas in counter-purchase, the coverage ratio is almost always less than and at most equal to one. The contractual arrangements are the same, however, with the two transactions linked but financially separate. Buy-back transactions need to be distinguished from co-production arrangements (or 'industrial-cooperation agreements') which for Western firms are essentially a substitute for direct investment in non-market economies.

The controversial Soviet gas pipeline deal is in the buy-back category. It has a precedent in 1968 with a similar deal between the Soviet Union and Austria (in fact this is the first-known 'buy-back' transaction in East-West trade) which involved the sale of Austrian pipelines, equipment and materials to enable the Soviet Union to develop certain gas fields, a part of the production being piped to Austria in payment.[7]

A second well-known example, although containing more elements of counter-purchase than buy-back, was an agreement in 1973 between Occidental Petroleum of the United States and the Government of the Soviet Union. Occidental Petroleum agreed to supply the Soviet Union with 1 million tons of super-phosphoric acid a year for twenty years, beginning in 1978. In a separate contract, Occidental Petroleum undertook to buy from the Soviet Union 1 million tons of potash a year and a quantity of ammonia that would rise, in several steps, from 350,000 tons in 1978 to a peak of 2.1 million tons by the mid-1980s, subsiding to 1.5 million tons by 1997 when the contract expires. Occidental Petroleum assisted in the construction of the necessary extra ammonia production and pipeline capacity. All payments are determined by current world prices at the time of shipment.[8]

GUESSING THE MAGNITUDE

Reading press reports one gains the impression that countertrade already accounts for a sizeable proportion of world trade and is expanding fast. In attempting to verify these claims, the paucity of data on countertrade poses an immediate problem. Such transactions are not distinguished separately in international trade statistics and up to now have not been subject to reporting requirements in industrial countries. Nonetheless, on the basis of direction-of-trade data and scattered information for particular countries, it is possible to set some upper limits.

Of the three categories of countertrade just described, counter-purchase and buy-back deals have taken place almost solely in the context of industrial countries' trade with the Eastern bloc and developing countries. The maximum proportion of East-West trade which could consist of countertrade is 30 per cent, on the basis of estimates made by the OECD and other researchers.[9] In the case of developing countries, buy-back deals are rare and no more than seven or eight countries have ventured into counter-purchasing, Indonesia being the only one to have done so in a systematic way.[10] It is thus unlikely that counter-purchasing could account for more than 2 or 3 per cent of their trade with industrial countries. (In 1982-83, counter-purchase commitments are estimated to be equivalent to only 2 per cent of even Indonesia's exports to industrial countries.) On this basis, counter-purchase and buy-back transactions may constitute a maximum of 2 per cent of world trade.

The third category of countertrade, *ad hoc* 'classical' barter, is generally considered to be insignificant in East-West trade, but it is more important in the trade of developing countries. From available information, it may be assumed that up to 10 per cent of both their mutual trade and their trade with the Eastern trading area, and 5 per cent of their trade with industrial countries, could involve 'classical' barter, or 3 per cent of world trade.[11]

Adding these proportions, one arrives at a *maximum* of 5 per cent of world trade which could consist of countertrade.

It is possible that the much larger estimates quoted in various published sources encompass trade flows occurring under bilateral trade and payments arrangements. All trade within the Eastern bloc and a certain amount of that of developing countries, both among themselves and with the Eastern bloc, is bound by intergovernmental agreements stipulating bilateral balancing through the commercial or financial sides of their trade or both. Total trade between countries of the Eastern trading area accounts for 4½ per cent of world trade; and the total trade of developing countries, excluding that with industrial countries, accounts for 10 per cent of world trade, of which one half (or 5 per cent) is the most which is likely to involve bilateral-balancing arrangements.[12] Thus, in total, at most 10 per cent of world trade could be taking place under inter-governmental agreements to balance bilateral trade and the actual proportion could be considerably smaller. The extent of these arrangements is probably lower now than at any time in the post-World War II period. Data from the International Monetary Fund (IMF) indicate that bilateral balancing of trade through payments arrangements has diminished considerably since the mid-1970s, although this seems to have been partly offset by additional commercial agreements.[13]

The extent to which countertrade is expanding is difficult to evaluate. Circumstantial evidence seems to indicate that it has grown considerably in recent years, although, given the above calculations, it must have done so from a very small base. In the Eastern trading area, trade with the West has always involved some counter-purchases, but the requirements have apparently become more rigid since the mid-1970s. The counter-purchase coverage ratios have tended to increase in all countries. In Bulgaria and Romania they have been set at 100 per cent and countertrade made compulsory.[14] Buy-back began only in the late-1960s and is the main category of countertrade practised by the Soviet Union and the People's Republic of China. The OECD considers it to be the fastest-growing form of countertrade in East-West trade. In the trade of developing countries, counterpurchase is a very recent phenomenon. *Ad hoc* 'classical' barter has been a more traditional if not predominant feature of their trade and there seems to have been some increased reliance on it in the last few years, particularly by oil-producing countries and those with surplus commodities. As for the future growth of countertrade, any estimates would have to be even more speculative, but it is clear that this will largely depend on its ability to satisfy the requirements of the countries concerned.

A CRITICAL APPRAISAL OF THE ECONOMIC ARGUMENTS

The growing interest in countertrade is rather perplexing. Most, if not all, of the countries concerned have access, at least in their non-Eastern bloc trade, to a multilateral payments system allowing them to sell their exports to the highest bidder and, with the proceeds, buy their imports in whatever market they choose. Apart from considerably restricting their trading opportunities, countertrade is a slow, complicated and hence costly way of doing business. In these circumstances, the growth of countertrade would seem to imply the existence of some other benefits, which outweigh its efficiency losses.

Overcoming Hard-currency Shortages

Perhaps the most common argument or explanation for the increased resort to countertrade practices, especially by developing countries, is that it enables the countries concerned to somehow get around the constraint on development imposed by a shortage of hard currency, raising imports above what they would otherwise have been. The shortage of hard currency is generally attributed to reduced import expenditure by the West — resulting from recession and protectionism — as well as to declining terms of trade and rising interest charges on foreign debt.

First of all, it is necessary to clarify what is meant by a 'shortage of hard currency' and what is responsible for it. The concept has much in common with the famous 'dollar shortage' of the early post-war years when the rest of the world appeared to have an inexorable tendency to run out of American dollars. In both cases, the existence of an actual shortage — in the sense that unplanned foreign borrowing is needed to cover it — implies a disequilibrium situation, which in a market-oriented economy is correctable by adjustment in the rate of monetary expansion, in domestic absorption and/or in rates of exchange. The 'foreign-exchange shortage' referred to in the countertrade literature basically arises from attempts by the countries concerned to live beyond their external means of payment.[15] A refusal to adjust can only perpetuate a situation in which the demand for hard currency exceeds its supply. Such a policy can be artificially sustained, however, by restrictions on access to foreign exchange (rationing) and this is the rather costly course which a number of developing countries have chosen.

There are two rationales for countertrade in the situation of an over-valued currency and foreign-exchange controls. First, it permits local firms to continue trading when their allocations of foreign exchange are insufficient. (A recent purchase of Malaysian rubber by tyre manufacturers in Mexico, where there are exchange restrictions, used cocoa beans as payment.[16]) Second, it enables the terms of exchange to be shifted to a more realistic rate for particular transactions; that is, a sort of selective devaluation. In essence, the firm in the country with an over-valued currency pays an abnormally high price for its imports to offset the existing abnormally high price of its exports. Such expedients by traders in developing countries are ways of coping with, but not ameliorating, shortages of foreign exchange which are policy induced.

The Eastern bloc has suffered 'shortages' of foreign exchange ever since East-West trade accelerated in the mid-1960s: it has been a secular phenomenon, although it was exacerbated by the post-1974 trends in the world economy. In the non-market economies there is no price mechanism for restoring equilibrium and the foreign-trade sector is not integrated into the domestic economy. Their foreign-exchange shortages simply reflect the difficulty that planners have in matching actual export receipts from the West with expenditure on Western imports. (The reasons for the persistence of this circumstance have been perceptively analysed by Franklyn Holzman, of Tufts University, in a recent article.[17])

For countertrade to be useful, it must result in an increased supply or decreased requirements of hard currency for a given volume of imports. It should be noted that the mere *avoidance* of the use of foreign exchange will not do, for this simultaneously reduces both demand and supply, whereas the need is to generate additional net hard-currency earnings. Thus barter *per se* cannot ease the foreign-exchange constraint. Counter-purchase and buy-back arrangements do not even get around the need for foreign exchange. As already described, these forms of countertrade involve two 'linked-but-financially-separate' transactions. The countertrading country is generally obliged to pay hard currency for its goods and eventually gets hard currency back when the second transaction is completed.

Availability of Credit

It is true that the first purchase by a countertrading country is often financed by a Western bank, either directly or indirectly, so that a question arises as to whether countertrade could result in an expanded supply of credit beyond that available under normal trade. Some writers have suggested that this is so in the case of buy-back deals.[18] There would, indeed, seem to be some logic in the proposition that the 'ready market' or relative assurance of future revenue stemming from such a project would enhance its credit-standing in the eyes of a Western bank or guarantor. This, however, is market-economy reasoning which need not apply to the Eastern bloc. Money is the most fungible of assets and the hard-currency earnings from a particular project in non-market economies will not necessarily be earmarked for repayment of the debt associated with it. It is thus the country's *overall* credit-worthiness which is relevant to any given decision on loans. The appropriate parallel here is with a single private firm in a market-oriented economy.

In fact, a major reason for the separate contracts used in countertrade is that Western banks generally do not lend money to finance such double-edged transactions, either with developing countries or the Eastern bloc.[19] The Export Credit Guarantee Department in the United Kingdom does not cover contracts which contain elements of countertrade. The reasons for this are not hard to find. The long period involved makes countertrade susceptible to exogenous forces which could radically change the future income profile from that anticipated. Such events as changes in protection policy, findings of market disruption and trade embargoes motivated by political considerations are by no means rare. The history of Occidental Petroleum's countertrade deal with the Soviet Union, mentioned above, is illustrative of what can happen:

> 'The US International Trade Commission issued two market disruption determinations, one in 1979 and the other in 1980. . . In the 1979 ammonia investigation, the ITC determined by a three-to-two vote that market disruption had occurred and a risk of dependence existed. The Commission recommended that ammonia quotas go into effect for 1980-82. These import levels would have held Soviet ammonia imports to approximately 5 per cent of US consumption. On December 11, 1979, President Carter rejected the taking of any remedial action in the case. After the Soviet invasion of Afghanistan, however, the President embargoed grain sales to the Soviet Union and Occidental's phosphate exports; the President also imposed emergency quotas on Soviet ammonia imports and on January 18, 1980 requested a new ITC investigation.'[20]

Failing an expansion of credit, the only other means by which countertrade could raise a country's capacity to import would be by somehow increasing the volume of its exports or leading to an improvement in its terms of trade. It has in fact been argued that countertrade can do both.

Promotion of Exports

Countertrade has been credited with enabling its practitioners (i) to sell goods which, because of their poor quality, design *et cetera,* would ordinarily not get sold in export markets, (ii) to expand the export-sales volume of other goods, through increased sales in existing markets or access to wider markets, and (iii) to diversify export composition. *Assuming prices and quality constant* for the moment, the mechanism by which this countertrade-induced rise in the volume of exports takes place hinges on the superior marketing expertise of the Western firm.

The non-market economies are generally not very successful at marketing their exports and the consumer appeal of many of their manufactured items, in particular, is not all what it could be. Imre Vajda, a Hungarian economist, attributed the selling problem of the Eastern bloc countries to deficiencies in 'performance, reliability . . . appearance, packing, delivery and credit terms, assembling facilities, after-sale services, advertising, *selling itself*'.[21] As has been justly observed: 'To have a comparative disadvantage in selling is much more of a problem than just having, as every nation does, a comparative disadvantage in a particular range of products, since selling affects virtually all manufactured products.'[22]

That Eastern bloc countries use countertrade as a means of marketing hard-to-sell items is demonstrated by the composition of the counter-purchase shopping lists. Readily marketable products, such as raw materials, are generally not available for counter-purchase, unless an unexpected shortfall in demand leaves a surplus. It has been observed that items are often removed from counter-purchase lists if export demand for them picks up.[23] Among developing countries, countertraded goods have mostly comprised surplus primary commodities or, as in Indonesia, semi-manufactured products and manufactured products for which export markets have yet to be established.

Countertrade is, however, a rather inefficient means of marketing a country's exports. In the case of counter-purchases, the Western firm immediately involved, unless it is very large and diversified, frequently does not market the goods itself anyway, for they are by definition unrelated to its own production activity. Instead, it sells them at a discount to a specialist trading company. Indeed, one indication of the expansion of countertrade is the increasing number of trading companies appearing in Western markets. The marketing expertise of these firms could presumably be made directly available to the country concerned at lower cost. In fact, on occasions trading companies have already acted on behalf of Western firms in the purchasing side of their countertrade transactions.

In the case of buy-back transactions, any marketing benefit would seem to be minimal, for the goods in question — output from Western-built plant and equipment or mining operations — are mostly easily marketable anyway, there being an established market and the products generally not suffering from the quality problems referred to previously.

In the long run, the offloading of the marketing function onto Western firms could be expected to perpetuate a 'selling problem' for non-market economies. It means that the necessary expertise will not have a chance to be properly developed domestically and, more importantly, that market feedback will not be such as to ensure that products can ever adequately meet (or anticipate) the requirements of Western consumers.

It should also be noted that what is in opposition to any positive marketing effect which countertrade might have on trade volume is the tendency of countertrade transactions, because of their complexity and time-consumption, to actually *reduce* the amount of trade possible in a given period of time. (This aspect is elaborated in a later section.)

Finally, on the question of export volume, the Department of Commerce in the United States has remarked on the frequent unavailability in Eastern bloc countries of counter-purchase goods which Western firms have contracted to buy. The same problem has been mentioned in connection with Japan's counter-purchase commitments in Indonesia.[24] This provides further evidence that there is a fundamental problem of inadequate export capacity (relative to import demand) in these countries which countertrade cannot do anything to solve.

Improving the Terms of Trade

The contention that countertrade promotes exports is frequently linked to the idea that it provides a means by which private traders can be somehow forced to pay above-normal prices for the goods concerned. On closer inspection, these 'price gains' appear to be of the sort caricatured in the following story.[25]

A Russian peasant was walking his dog in the local village on market day when he encountered a friend. 'I am selling the dog,' he announced, as they slowed to talk.

The friend asked, 'How much are you asking?'

'Two thousand roubles,' he replied.

'For that mongrel, two *thousand* roubles! You'll be lucky to get two hundred.'

A week later they met again. The peasant's friend asked, 'How's that mutt of yours?'

'I have just sold him. And for two thousand roubles.'

'What! You must be joking.'

'Not at all,' the peasant shrugged. 'You see, I found a pet dealer who happened to have two cats available at one thousand roubles each.'

The mechanism by which countertrade is said to improve the terms of trade of the countries practising it can be summed up as involving (i) monopsony power on their part and/or (ii) under-pricing by competing private Western suppliers who are adversely affected by depressed demand in industrial markets and/or anxious to secure any entry into, or maintain their place in, the countertrader's market.[26]

The monopsony-power argument would seem to confuse the concentration of buying and selling in the hands of a single state trader with the share of the world market held by the country's trade. It is the latter, not the former, which determines a country's ability to influence the overall terms of its trade. A country cannot acquire monopsony power by practising countertrade; it would have to be a major force in world trade to begin with. No individual countertrader in the Eastern bloc or among developing countries has such a commanding market position. Even taking the Eastern trading area as a whole, its share in the rest of the world's total exports amounted to only 4½ per cent in 1981; its share of developing countries' exports of primary products, to 10 per cent; and its share of industrial countries' exports of manufactures, to 4½ per cent. This is not to deny that for specific commodities in specific years the position of certain countries has been more significant (the Soviet Union in grains or butter, for example), but this is the exception rather than the rule.

The fact that countertrade goods are often sold by the Western firm immediately involved to trading houses at discounts as high as 40 per cent of their face value is sometimes cited to support the contention that Western exporters are being exploited in countertrade deals — because of their anxiety to make a sale or just due to inexperience. Whether the Western firm really does do badly depends, however, on how it priced its original exports to the countertrading country. A competitive firm will presumably base its export-pricing calculations on the need to make a profit on the countertrade deal as a whole. The Department of Commerce in the United States has observed that 'many Western exporters are compelled to bury in their prices a conservatively estimated safety margin, thus transferring back to the foreign trade organisation the costs associated with the disposal of countertraded goods'.[27]

It may be that, in attempting to maximise long-run profits from trade with a countertrading country, a Western firm could take a lower than normal profit (or even a loss) on a particular deal, although there is no reason why this would be specific to countertrade. It is also likely that some first-time entrants into the countertrade arena may make a loss through inexperience — over-estimating the saleability of the counter-purchased goods, for example. The existence of a learning curve associated with these transactions should be assumed. But such circumstances by no means imply that the terms of exchange will be pushed systematically in the countertrader's favour. The private Western firm is, after all, a free agent with a well-developed survival instinct. This is especially true of the large multinational enterprises which are predominant in East-West trade. For such firms the trade of any particular Eastern bloc or developing country is generally of minor significance relative to their total turnover and they are unlikely to be pressured into granting them preferential treatment. When the international trading situation is bad, private firms will reduce their prices in all markets. Such evidence as there is suggests that Western firms have so far done rather well out of countertrade.[28] With the growing number of large corporations establishing specialised countertrade divisions, this trend is likely to continue.

Rather than improving a country's terms of trade, it would seem more likely that countertrade could lead to their deterioration, relative to the position under normal trade transactions. This is because of the much greater transaction costs in countertrade. Faced with a given market price, the extra cost of doing countertrade will generally be taken from the net returns of the countertrading country itself.

It is worth noting that while countertrade is unlikely to enable its practitioners to exploit private Western firms, gains could be made in circumstances in which Western governments are involved — through access to subsidies, for example. The argument put forward by Raymond Vernon, of Harvard University, that trade with the Sino-Soviet bloc inevitably leads to net social losses for market-oriented economies, while unconvincing overall, does gain plausibility in a situation of government-subsidised exports and credit.[29]

Dumping and Price Cutting

Countertrade is attributed not only with the ability to improve a country's terms of trade but also with the opposite effect of facilitating dumping and price cutting. It is clear that both cannot be generally true. Since it has just been argued that countertrade is unlikely to raise (net) export prices, the contrary hypothesis deserves consideration.

In law, 'dumping' refers to the exporting of goods from country A to country B which are priced at less than 'normal value' (taken to be A's domestic price or, as proxies, a third-country price or cost-plus in A or, failing these, cost-plus in some other country like A). To justify anti-dumping penalties it is necessary, in addition, to demonstrate that the dumped product is causing, or threatening to cause, material injury to the established industry in B.

The dumping problem, it should be noted, has greater political content than economic content. In most cases, the entry into Western markets of goods priced at less than 'normal value' is likely to be beneficial to the economies concerned. The only clear exception is predatory dumping which seeks to eliminate domestic competition in the short run so as to permit monopoly pricing in the long run. There have been very few documented cases of such attempts, however, and none at all in the post-World War II period.[30]

In the absence of a comparable price and cost structure, and with their export prices rather arbitrarily determined, non-market economies may appear to those concerned by dumping to present a special threat. This is reflected in national dumping legislation and in the bilateral treaties which establish the rules of the game in East-West trade. In evaluating this threat, however, it is important to determine the conditions likely to promote dumping. The systemic foreign-exchange shortages of the Eastern bloc countries and the insufficiency of their export capacity, already discussed, could be expected to provide them with an additional incentive to seek the highest prices possible for their exportables. Nikita Krushchev, in a 1959 speech, argued that, 'by engaging in dumping, a country deprives itself of the possibility of accumulating resources for further development and thus deliberately restricts the expansion of its economy'.[31] In spite of this position, the peculiarities of the planning process in the Eastern bloc countries, which in trade manifests itself in rigidities on the import side and a lack of stable global export networks, makes them vulnerable to unexpected shortfalls in foreign demand, especially when reserves are low and indebtedness is high. In this situation, the foreign trade organisations will be under pressure to generate needed foreign exchange rapidly, at almost any cost, with substantial price cutting the means of doing so.

Nevertheless, countertrade would seem too unwieldy for this purpose. 'Classical' barter is too inflexible, requiring a 'double coincidence of wants',[32] and counter-purchase and buy-back arrangements are generally transacted over a relatively long period. The main attraction of countertrade for dumping purposes is, of course, its reduced transparency relative to normal transactions, but in trade with non-market economies it is already difficult enough to determine from price information whether dumping has taken place, especially for manufactured goods.[33] (This need not mean though that some additional opaqueness would be unwelcome.)

The attractions of countertrade for dumping or price-cutting purposes are clearly much enhanced, however, when the objective is to offload discreetly primary commodities that have been stockpiled. An OECD study has noted in reference to the barter practices of developing countries that 'in later years the marketing of surplus commodities appears to be the most dominant objective'.[34] A 'surplus' of export goods arises when the price is too high to clear the market. Many producers are prevented from reducing their prices to market-clearing levels by international commodity agreements as well as by fear of anti-dumping measures. Barter can provide a means by which individual countries may dispose of their export surpluses without having to stipulate the price. Thus one may speculate about the sudden proclivity for oil-barter deals of Nigeria, Iran, Libya and, most recently, Indonesia — the four members of the Organisation of Petroleum Exporting Countries worst affected by the recent oil glut. (The bauxite-for-powdered-milk barter deal between Jamaica and the United States last year also excited some controversy in this respect.) Indirect evidence of a price-cutting motive for many barter deals can perhaps be found in the agreements governing such transactions which frequently contain a clause forbidding the re-sale of the bartered products on third markets.

CENTRAL PLANNING, POLITICS AND BUREAUCRACY

It emerges that arguments to the effect that countries can derive lasting economic benefits from countertrade do not stand up to critical scrutiny. In particular, the idea that countertrade provides a means of overcoming the foreign-exchange constraint to increased imports from the West involves not only a misconception about the origins and nature of so-called hard-currency shortages but also a misapprehension about the likely impact of countertrade on the volume and terms of trade. In seeking to explain the interest in countertrade, therefore, it is necessary to look to political and bureaucratic factors as well as objective economic ones.

Eastern Bloc Countries

Countertrade originated in East-West trade. It represents an obvious extension of the bilateral-balancing principle which characterises the mutual trade of the Eastern bloc countries and much of their trade with developing countries. That Communist countries pursue bilateral balancing is well known. President Nicolae Ceausescu of Romania was not expressing a minority opinion when, in a 1979 speech, he urged his country 'to proceed with more decisiveness to balance trade by country and even by product categories'.[35] Edward Hewett, of the Brookings Institution in Washington, notes that in the Soviet Union 'there are specific instructions to geographic trade administrations to achieve a zero balance wherever possible'.[36]

In exploring the reasons for this, it is worth recounting the distinguishing features of most Communist economies. First, the domestic price structure is politically and administratively determined and quite different from that which would result from competitive transactions among independent firms. Second, decisions about what and how much to produce are made by central planners. Third, foreign trade decisions are also made centrally in accordance with the five-year plan. Fourth, there are no direct linkages between the domestic and international economies.

In these circumstances no rate of exchange can provide a meaningful basis for trade. As a result, the Eastern bloc countries often use dollar prices as a guide, even in trade with each other. Alec Nove, of the University of Glasgow, relates how 'one Eastern official, in an off-duty moment, expressed the view that, even after the world revolution, it will be necessary to preserve one capitalist country: "otherwise how will we know at what prices to trade?" '[37] Eastern bloc currencies are in fact convertible neither into other currencies nor into goods. These features, especially the second one, have ensured that virtually all trade within the Eastern bloc has involved rigid bilateral balancing. The attempt at multilateral clearing, using transferable roubles held at the International Bank for Economic

Cooperation, failed for the simple reason that surpluses could not be freely spent; that is, countries were not prepared to allow foreign demand to disturb their domestic production structure or, using Professor Holzman's terminology, to allow 'commodity convertibility'.

At the bureaucratic level, the main concern is not with a balancing of payments *per se* but with the avoidance of disruption to the five-year plan. The Communist countries' conception of trade is the opposite of mercantilist. Certain items, necessary to attain the production objectives of the five-year plan, must be imported from the West and exports are seen purely as a means to that end. Bureaucratic and political procedures introduce a high degree of rigidity into planned production and imports, with the one importantly dependent on the other. The weak link in the chain is exports, the demand for which cannot be planned. The consequences for the bureaucracy of export failure can be traumatic. Unless further credit can be raised, imports must be cut back; this is neither administratively nor economically simple.[38] Decisions must be made about which goods should be given priority among a list of items already considered essential. Any cutbacks will create a chain of disturbance throughout the economy, involving both bottlenecks and surplus capacity.

A country with an inconvertible currency may nonetheless have a multilateral trade relationship with a group of countries having convertible currencies, as long as its transactions balance with this group as a whole. As multilateralism was restored in trade among market-oriented economies in the 1950s, most of these countries insisted that their dealings with the Eastern bloc should be on a similar basis. The consequent difficulty for non-market economies has been, in the absence of either any self-equilibrating mechanism or bilateral planning, to ensure that the value of exports, imports and financial flows balance. Thus one attraction of countertrade has no doubt been that it is a balancing device, a substitute for the more comprehensive bilateral trade and payments arrangements which are not possible with the West.

It follows that the governments of non-market economies are anxious to get as much certainty as they can into their export plans. References are often made to the 'instability' of Western economies, the 'anarchic' forces of the free market *et cetera*. Countertrade, especially those forms involving long-term commitments, is seen as a means of making sales to the West more certain. Thus it was observed in 1977 that 'all the areas listed in the tenth five-year plan as targeted for development in Siberia are represented in actual or proposed countertrade deals between Western firms and the USSR'.[39]

While it may be natural for bureaucrats charged with the design or implementation of a Plan to seek stability through barter commitments, it is not evident that such transactions will necessarily be more stable than multilateral trade.

A major study of bilaterally-planned East-West trade published in the 1950s concluded: 'Not only has it been wide of the agreement targets but it has also been less stable and more subject to erratic fluctuations than unplanned trade among Free World countries.' A number of more recent studies have reached similar conclusions.[40]

Developing Countries

Although not central planners in the sense of the Eastern bloc countries, public administrations play an important entrepreneurial role in the economies of many developing countries. Most governments in these countries are heavily engaged in investment, production and distribution, as well as consumption. As a result, a large part of total import expenditure derives directly from the public sector — an important pre-condition for the implementation of a countertrade policy. For example, it has been estimated that about 70 per cent of India's total imports are handled by state-trading agencies.[41]

The motive of the developing countries for engaging in countertrade is generally held to be one of economic necessity. The configuration of circumstances leading to the external payments difficulties of developing countries in the last few years is well known. That their governments have been attracted to countertrade and other bilateral arrangements in a last-ditch attempt to alleviate the problems is plausible, given that they have the means of doing so and a tradition of interventionism. But, as already shown, barter is unlikely to be of assistance and will generally make matters worse. It is hard to believe that most governments are really deceived about this or, if so, that they will remain deceived for long. In any case, to the extent that countertrade is an administrative response to the aggravation of trade and payments difficulties, it could be expected to subside when international economic conditions improve.

Most of the documented examples of recent barter deals by developing countries have arisen in their mutual trade or in that with the Eastern bloc. For the reasons just outlined, Communist countries attempt to balance their trade bilaterally wherever possible and those developing countries with which they have been running substantial trade deficits have sometimes been pressed to rectify the situation. Rather than entering a formal bilateral-balancing arrangement — an unattractive prospect for any country with a surplus in its bilateral trade — some countries may have turned to barter arrangements on a more *ad hoc* basis. This appears to have been the case in Malaysia and Thailand, for example, and may also be relevant to those countries in Latin America which have recently become important suppliers of grain and meat to the Eastern bloc.[42] The obvious danger in this trend is that it diminishes the potential for hard-currency earnings of countries which are already hard pressed to meet their debt-service commitments.

The Prime Minister of Malaysia has been quoted as describing countertrade as 'a weapon against the protectionist policies of developed importing countries'.[43] It was not made clear by what means countertrade could be effective in this role. It is quite feasible, for example, that, as an opaque administrative device, it could be used to discriminate in favour of less protectionist or politically more congenial suppliers, without risking censure under the General Agreement on Tariffs and Trade (GATT). To the extent, however, that the new suppliers were also less efficient, this could be a costly practice. Alternatively, countertrade could perhaps be seen as a vehicle for securing greater access to a protected market. This would not work under restrictions of the type in the Multi-fibre Arrangement, but it is relevant to the situation when imports into a national market are limited by a global import quota. In this case, the countertrading country would need to take into account the political implications of the fact that its own gains would be to the disadvantage of other suppliers, who would be likely to protest.

The Indonesian scheme, which was intended to facilitate export diversification and growth, has so far not been very successful in these respects. It was initiated in January 1982; the first deal took place eight months later and by March 1983 counter-purchase commitments totalled $346 million (actual purchases amounting to $60 million) compared with exports in 1981 of $22,000 million (or $7,000 million excluding petroleum). In spite of these poor results, the Government of Indonesia has not eased the harsh requirements of the scheme, outlined in a previous section, and, since February 1983, it has been promoting barter in the trade dealings of Pertamina, the state-owned petroleum concern. This has led to some speculation that the real objective may be to restrict imports rather than to expand exports.[44] The choice of such an indirect means of curtailing public expenditure by any country, while improbable, is not inconceivable, depending on the prevailing political and bureaucratic constraints on overt action.

Industrial Countries

The involvement of private firms in countertrade has been mainly reactive. It is a commonplace that Western producers prefer conventional transactions — 'cash in hand, no strings attached'. Nonetheless, active lobbying against these practices has not come from firms exposed to countertrade requirements — presumably because they find them profitable — but rather from those representing the interests of domestic firms competing with countertrade goods, typified by the Occidental case. As a result of the growth of specialised countertrading firms, a certain amount of lobbying now seems to be going the other way.[45]

Whereas countertrade is a bureaucrat-intensive activity in the Eastern bloc and developing countries, it is a lawyer-intensive one in Western developed countries.

Countertrading firms have expertise not only in the disposal of goods but also in the legal aspects of these relatively complicated transactions. The need for sound legal advice is a theme which some articles on countertrade appearing in Western periodicals have obviously been at pains to emphasise. For example, Thomas McVey, an international trade lawyer in the United States, notes: 'The nature of these transactions is constantly evolving, and the businessman *and his attorney* must be very vigilant for new and unexpected developments.' He goes on to say that 'international businessmen *and their attorneys* have the freedom to be more creative and responsive in their business activities, but are forced to be more thorough and alert in . . . their new form of trade undertaking'.[46]

Some Western governments have protested about the demands of foreign governments for counter-purchase and buy-back arrangements with their private firms, but they have neither the legal power nor, individually, an economic incentive to prevent it. In fact, through their state-trading agencies, the governments of some industrial countries have themselves participated in barter transactions. *Ad hoc* barter deals can provide them with a means of (i) disposing of costly stockpiles of subsidised or domestically over-priced commodities and (ii) benefiting from a foreign government's need to do the same thing, especially when the goods concerned have strategic value.

EVALUATING THE 'THREAT'

Countertrade is seen as posing two main threats to the international trading system. The first and more immediate threat is that of market disruption. The second one is of a return to bilateralism.

Market Disruption

Avoiding the technicalities, the concepts of 'injury' and 'market disruption' can be characterised as involving situations in which a market is flooded by cheap imports, displacing domestic or third-country suppliers. The question is whether countertrade makes a market disruption situation more likely and/or more difficult to prove.

In the case of most counter-purchase and buy-back deals, this would not appear to be so, for the following reasons. First, they are generally executed over a period of years, involving gradual and predictable penetration of the market concerned. Second, the price and volume details are no less transparent than in conventional transactions, which from a legal and financing viewpoint they closely resemble.[47]

'Classical' barter would in these respects seem a more likely candidate for market disruption. As already shown, these transactions can involve substantial volumes over a short period of time and need make no explicit reference to prices at all. Thus there is greater potential for the sudden 'flooding' of markets at artificially low prices. Although in principle this situation is covered by existing GATT (and national) rules on dumping and subsidies, it may be necessary to devise means of ensuring that barter deals can be adequately scrutinised under these laws.

Bilateralism

The second and more alarming possibility is that countertrade could undermine the multilateral trading system itself, replacing it by 'bilateralism'. This term refers to a family of policies which aim at or have the effect of balancing trade with each trading partner. It is clear that all forms of barter have a tendency to shift the pattern of trade in the direction of bilateral balancing. The case against bilateralism is well established and can be briefly stated.

The purely economic argument is that bilateralism results in a *generalised* contraction of trade and production through trade diversion, resource misallocation and increased transaction costs. Multilateral trade is normally associated with trade imbalances between trading partners due to international specialisation and differences in the pattern and magnitude of demand. Any action to reduce disparities in bilateral trade flows will necessitate a switching of import expenditure to higher-cost sources. This will decrease not only the volume of imports but also the volume of domestic output, as a result of reduced demand and increased costs of supply. The depressive effect on trade and production is compounded by the increased transaction costs associated with bilateralism. This sort of trade requires much more 'management' than conventional trade, involving greater administrative and legal input, and is more time-consuming to negotiate. The costs of a given volume of trade are thereby raised and the number of transactions possible in a given period of time are reduced.

In the 1930s the widespread resort to bilateralism in Europe played an important part in the sharp curtailment of world trade. It is, of course, difficult to assess its separate impact in a period when protectionism was rampant and aggregate demand and production declining, as was the case between 1929 and 1932. In the subsequent five years, however, when world production recovered to above the level attained in 1929 and protection had stabilised somewhat, the failure of world trade to recover to a comparable extent (except for raw materials, it remained well below 1929 volumes) can be explained mainly by the continuation of bilateralism. In this period, the share in world trade of countries like Germany which were heavily involved in bilateral-trading arrangements declined. The mutual trade of the seven countries in the Danube Basin fell from 33½ per cent of their total trade in 1930 to 27½ per cent in 1935 after bilateral balancing was introduced among them.[48] In post-war Europe, bilateralism again proved a major obstacle to recovery in trade and production and contributed to the failure of the first attempt at economic reconstruction in Europe.[49] A final, more recent illustration, is the performance of the Eastern trading area's bilateralised mutual trade: as a proportion of the countries' total trade, it declined from 66 per cent in 1963 to 49 per cent in 1981; and relative to world trade, it declined from 8 to 4½ per cent.

The second half of the case against bilateralism, which deserves a more detailed treatment than can be given here, is that it encourages government involvement in trade in a way which politicises it and makes it a tool of foreign policy. The balancing of bilateral trade cannot be achieved without government intervention and, by definition, without discrimination. Once caught up in a network of bilateral trade, small countries become vulnerable to coercion by more powerful ones. The most graphic illustration of this is Nazi Germany's dealings with the Balkan states before World War II, when the small export-starved countries were made 'offers they could not refuse', permitting the Nazi government to make economic and political gains at their expense.[50]

As already noted, countertrade forms a sub-set of bilateralist policies. It closely resembles what was called 'compensation trading' in the 1930s. Indeed, except for the long-term buy-back deals, very few of the present countertrade practices have not had a precedent in these years.[51] Countertrade thus shares to some extent the adverse economic and political features just described, but with important differences.

In the 1930s and 1940s, barter among countries in Europe was a consequence of fundamental disequilibria in the structure of production and relative prices, which manifested itself in the inconvertibility of their currencies. In 1931, the virtual collapse of the international monetary system meant that, in the debt-ridden countries of Eastern Europe, compensation trading emerged as a necessary expedient to enable trade to continue at all. It was only a transitory phenomenon, however, and soon gave way to comprehensive inter-governmental agreements using 'bilateral-clearing accounts', which allowed greater flexibility than the more primitive barter form.[52] In this way, most of Europe's mutual trade soon came to be conducted under rigid procedures for bilateral balancing, involving import and sometimes export licensing by each country. A country's export 'earnings' could be spent only in the particular market from which they were derived.

The situation today is quite different. The bulk of world trade is conducted multilaterally in convertible currencies — even that between East and West — and, within this system, barter is being demanded only for particular transactions. For the majority of private firms in the industrial and developing countries, countertrade is of minor importance. In any case, they remain free to sell, and hence buy, wherever they can make a profit. The costs to the world economy of countertrade, by contrast to barter under comprehensive inter-governmental arrangements, are thus relatively small and are borne principally by the countries imposing them.

SUMMING UP

In spite of some indications of recent expansion, countertrade is of marginal importance in world trade. It remains focussed predominantly on trade with the Eastern bloc. Systemic forces in these countries make it likely that countertrade will continue to represent a significant and perhaps even growing part of their external trade, but this trade is itself of minor significance relative to other international trade flows and there are good reasons to believe that, in the absence of fundamental economic reforms, it will remain so.[53] Any attraction which countertrade (and other forms of barter) may have for developing countries is largely based on a misapprehension concerning its ability to ameliorate their difficult trade and payments situation in the context of a world recession. In practice, countertrade will almost certainly make matters worse. While it is true that governments frequently continue to engage in policies which experience reveals to be costly to their economies, this can usually be explained by the existence of powerful domestic vested interests. In the case of countertrade, this is a significant factor only in the non-market economies, where it is of bureaucratic origin. The self-inflicted costliness of countertrade in a world where, at least in trade with the industrial countries, efficient alternatives exist is thus the main reason why it is unlikely to ever become a serious threat to the multilateral trading system.

---

1. This article is the personal responsibility of the author and in no respect implicates the Secretariat of the General Agreement on Tariffs and Trade (GATT). Helpful comments from Jan Tumlir and Richard Blackhurst on an earlier draft are gratefully acknowledged.
2. The 'Eastern bloc' refers to the member countries of the Council for Mutual Economic Assistance (CMEA or Comecon).
3. *East-West Countertrade Practices* (Washington: US Government Printing Office, for the United States Department of Commerce, 1978) p. 3.
4. Falko Schuster, 'Barter Arrangements with Money', *Columbia Journal of World Business*, Fall 1980.
5. *Ibid.*, p. 62.
6. See various issues of the *Financial Times*, London and Frankfurt; and 'A Return to Barter', *Far Eastern Economic Review*, Hong Kong, 27 August 1982.
7. *Countertrade Practices in the ECE Region*, TRADE/R.385 (Geneva: United Nations Economic Commission for Europe, 1979) p. 22.
8. *Fortune*, New York, 7 April 1980.
9. See *East-West Trade: Recent Developments in Countertrade* (Paris: OECD Secretariat, 1981), especially pp. 26-35; and Jacques de Miramon, 'Countertrade: a Modernized Barter System', *OECD Observer*, Organisation for Economic Cooperation and Development, Paris, January 1982, p. 13.
10. In the literature, instances of counter-purchase have been reported for Turkey, Ecuador, Brazil, Mexico, Pakistan and Indonesia; and a buy-back transaction, for Morocco. Some sources have included other countries imposing investment-performance requirements in automobiles.
11. See Ingelies Outters-Jaeger, *The Development Impact of Barter in Developing Countries* (Paris: OECD Secretariat, 1979). The term 'Eastern trading area' corresponds to the definition in GATT publications and comprises Albania, Bulgaria, Czechoslovakia, the German Democratic

Republic, Hungary, Poland, Romania, the Soviet Union, the People's Republic of China, Mongolia, North Korea and Vietnam.

12. This is based on the following assumptions: (i) an upper limit of 75 per cent of developing countries' trade with the Eastern trading area under balancing arrangements, which compares with data of the United Nations Conference on Trade and Development (UNCTAD) revealing that 57 per cent of Eastern Europe's trade turnover with developing countries occurred under bilateral-clearing arrangements in 1975; and (ii) a maximum of 40 per cent of trade between developing countries taking place under such arrangements, following *ibid.* See *Review of the Present State of Payments between Developing Countries and the Socialist Countries of Eastern Europe,* UNCTAD Document TD/B/AC.22/2 (Geneva: UNCTAD Secretariat, 1977) p. 9.

13. For example, Brazil has recently concluded a number of bilateral agreements of this type. For the incidence of payments arrangements, see *Annual Report on Exchange Arrangements and Exchange Restrictions* (Washington: International Monetary Fund, 1982).

14. See *Countertrade Practices in East Europe, the Soviet Union and China* (Washington: US Government Printing Office, for the United States Department of Commerce, 1980); *East-West Trade: Recent Developments in Countertrade, op. cit.*, especially pp. 40-43; and *Business Eastern Europe*, 6 July 1979, p. 212.

15. With this in mind, perhaps, Sir Roy Harrod was prompted to remark in 1947 that the 'allegation of a "world dollar shortage" is surely one of the most brazen pieces of collective effrontery that has ever been uttered', quoted in Leyland B. Yaeger, *International Monetary Relations* (New York: Harper & Row, 1966) p. 459. This book also contains a useful summary of the whole 'dollar-shortage' debate. See, also, Fritz Machlup, 'Three Concepts of the Balance of Payments and the So-called Dollar Shortage', *Economic Journal*, March 1950.

16. *Far Eastern Economic Review*, 27 January 1983, p. 52.

17. The reasons can be summarised as involving (i) optimistic projections of export sales, (ii) rigidities in import demand and (iii) over full-employment planning. See Franklyn D. Holzman, 'Some Systemic Factors Contributing to the Convertible Currency Shortages of Centrally-planned Economies', *American Economic Review* (Papers and Proceedings), May 1979.

18. See Philip H. Potter, 'East-West Countertrade: Economic Injury and Dependence under US Trade Law', *Law and Policy in International Business*, Vol. 13, No. 2, 1981, p. 417; and 'Back to Barter', *World Trade Outlook*, Malmgren Golt Kingston, London, Vol. 4, No. 5, 1982.

19. See *Countertrade Practices in East Europe, the Soviet Union and China, op. cit.*, p. 27; and Thomas B. McVey, 'Countertrade and Barter: Alternative Trade Financing by Third World Nations', *International Trade Law Journal*, Spring-Summer 1981.

20. Potter, *loc. cit.*, p. 440.

21. Cited in Holzman, *loc. cit.*, p. 76.

22. Holzman and Robert Legvold, 'The Economics and Politics of East-West Relations', in C. Fred Bergsten and Lawrence B. Krause (eds), *World Politics and International Economics* (Washington: Brookings Institution, 1975) p. 287.

23. 'Locating "Unavailable" Countertrade Goods', *Business Eastern Europe*, 31 August 1979.

24. See *Countertrade Practices in East Europe, the Soviet Union and China, op. cit.*, p. 21; and *Far Eastern Economic Review*, 27 January 1983, pp. 49-50.

25. Based on an anecdote in Peter Wiles, *Communist International Economics* (Oxford: Basil Blackwell, 1968) p. 210.

26. See, for example, McVey, *loc. cit.*, pp. 198 and 200.

27. *Countertrade Practices in East Europe, the Soviet Union and China, op. cit.*, pp. 23-24.

28. See *Fortune*, 7 February 1983; and *East-West Trade: Recent Developments in Countertrade, op. cit.*, The latter notes: 'Without pre-judging future developments it must however be admitted that the most pessimistic projections on some of these buy-back deals . . . have not been confirmed' (p. 62).

29. Raymond Vernon, 'Fragile Foundations of East-West Trade', *Foreign Affairs*, Summer 1979.

30. Richard Dale, *Anti-dumping Law in a Liberal Trade Order* (London: Macmillan, for the Trade Policy Research Centre, 1980) p. 10.

31. Quoted in J. Wilczynski, 'Dumping and Central Planning', *Journal of Political Economy*, June 1966, p. 260.

32. 'There may be many people wanting, and many possessed of those things wanted; but to allow an act of barter, there must be a double coincidence, which will rarely happen.' W.S. Jevons, *Money and the Mechanism of Exchange* (London: Appleton, 1875) p. 3.

33. See Robert L. Meuser, 'Dumping from "Controlled Economy" Countries: the Polish Golf Car Case', *Law and Policy in International Business*, Vol. 11, No. 2, 1979.

34. Outters-Jaeger, *op. cit.*, p. 13.

35. *Countertrade Practices in East Europe, the Soviet Union and China, op. cit.*, p. 44.

36. Edward A. Hewett, 'Most-favoured-nation Treatment in Trade under Central Planning', *Slavic Review*, March 1978.

37. Alec Nove and Desmond Donnelly, *Trade with Communist Countries* (London: Hutchinson, for the International Economic Association, 1960) p. 31.

38. Professor Hewett notes that in the Soviet Union the import plan has the status of a law passed by the Supreme Soviet, after approval by the Politburo and the Council of Ministers. See Hewett, *loc. cit.*, pp. 31-32.

39. Janell Matheson *et al.*, 'Countertrade Practices in Eastern Europe', in *East European Economies Post-Helsinki*, a Compendium of Papers submitted to the Joint Economic Committee, Congress of the United States (Washington: US Government Printing Office, 1977) p. 1258.

40. See Raymond F. Mikesell and Jack Behrman, *Financing Free World Trade with the Sino-Soviet Bloc* (Princeton: University of Princeton Press, 1958) p. 80; and Philip Hanson, 'East-West Trade and Economic Systems', in Nita G.M. Watts (ed.), *Economic Relations between East and West* (London: Macmillan, for the International Economic Association, 1978) and references cited therein.

41. M.M. Kostecki, 'State-trading: a Major Factor in International Business', *Les cahiers du CETA*, November 1980, p. 5.

42. See *Far Eastern Economic Review*, 27 January 1983; and *Latin America Weekly Report*, 11 March 1983, p. 5. For a discussion of developments in trade relations between developing countries and the Eastern bloc, see Outters-Jaeger, *op. cit.*; and *Review of the Present State of Payments between Developing Countries and the Socialist Countries of Eastern Europe*, *op. cit.*

43. *Far Eastern Economic Review*, 17 March 1983, p. 8.

44. It is interesting in this respect that Pertamina announced in late February that it would '*seek to limit imports* of refined oil products from Singapore by requiring future contracts to be negotiated *on a barter instead of a cash basis*' (emphasis added). See *Financial Times*, 25 February 1983. See, also, *The Economist*, 19 March 1983, p. 86.

45. Note the spate of 'letters to the editor' from businessmen in response to a critical feature article in the *Wall Street Journal*, 25 October 1982.

46. McVey, *loc. cit.*, pp. 199 and 208 respectively (emphasis added).

47. Note that Potter, *loc. cit.*, is based mainly on the argument that it is precisely the long-term predetermined nature of countertrade import growth which constitutes injury or disruption. Philip Potter's interpretation has not only no basis in law but also none in economics. If trade which resulted in increased market shares were not permitted, the gains from trade itself would be undermined. The fact that these deals are relatively transparent is supported by his own description of the United States International Trade Commission's hearings on the Occidental Petroleum case. See pp. 438-51.

48. Antonin Basch, *The Danube Basin and the German Economic Sphere* (New York: Columbia University Press, 1943) p. 88.

49. See Jan Tumlir and Laura LaHaye, 'The Two Attempts at European Economic Reconstruction after 1945', *Zeitschrift für die gesamte Staatswissenschaft*, No. 137, 1981, pp. 367-89.

50. 'Germany expanded her trade with the nations of south-eastern Europe and South America, which were suffering from the agricultural crisis and restricted her trade with the rest of the world, which was not ready to barter raw materials for German exports. . . From 1932 to 1937 the exports from south-eastern Europe rose threefold. . . The Nazis used and abused this economic position in order to exercise political pressure. . . Germany was ready to buy milk and timber from the Austrian border districts only under the condition that the Austrian government allowed Nazi agi-

tation there to continue. . . As a result of such practices Germany's clearing partners in these parts of Europe had a rather bad time under the agreements, in spite of the high prices paid by the German importers. They were aware that the Nazis tried to impair their political independence, but they needed the trade with Germany, even at the cost of Germany's economic penetration.' See Richard Schüller, 'Commercial Policy between the Two Wars: Personal Observations of a Participant', *Social Research*, Vol. X, 1943, pp. 164-65. German bilateralism continued during World War II and the Nazis intended to make it the basis for trade with the conquered countries within the post-war 'new order'. For a general discussion of the reasons for and effects of 1930s bilateralism, see Howard S. Ellis, *Bilateralism and the Future of International Trade*, Princeton Essays in International Finance No. 5 (Princeton: International Finance Section, Department of Economics, Princeton University, 1945).

51. See Margaret S. Gordon, *Barriers to World Trade: a Study of Recent Commerical Policy* (New York: Macmillan Publishing, 1941) pp. 170-203.

52. A bilateral-clearing arrangement allows trade between two countries to take place without the need for foreign exchange. A state-run common clearing account (usually at the central bank) is established in each country, say A and B. Importers in country B of goods from A pay their obligations in local currency into the national clearing account, which can then be drawn down to pay exporters in B of goods to A. International currencies may be used for accounting purposes, as a 'clearing unit'. Country A's balances in country B can be spent only on imports from B.

53. See, for example, the papers in Watts (ed.), *op. cit.*; and Holzman and Legvold, *loc. cit.* For a dissenting view, see Vernon, *loc. cit.*

Living in the Long Run

In an analysis of the present difficulties facing the world economy, entitled *Living in the Long Run: a Report on Inflation, Protectionism and Sovereign Debt*, prepared by a study group of the Trade Policy Research Centre under the chairmanship of Kenneth Durham, the following quotes are cited at the beginning of the final chapter.

> 'The short-run orientation of our political processes is at the root of the difficulties with which we are confronted. The basic question facing Western countries is whether they will prove able to overcome these difficulties without slipping into the kind of institutional setting which is characteristic of the more long-run oriented, centralized and undemocratic countries. . . The extent of the concern with the short run expressing itself in the policies of many Western nations has caused large damage to them and it is essential that these nations should reorient themselves toward the long run.
>
> — William Fellner, 'Shock Therapy or Gradualism?' (1981)

> 'To say in 1982 that unemployment is a major social problem is precisely to say that the decision to inflate the economy in the late 1960s and early 1970s was a costly one'
>
> — Robert E. Hall, in the *American Economic Review* (May 1982)