

Recognizing the foregoing disadvantages, the Comecon countries continue, nevertheless, to believe that CT demands do contribute to a reduction of trade deficits with the West and to their longer term involvement in world trade. They believe that the quality, delivery, and after-sales service of Comecon goods will be improved over time so that Western importers will not have to reduce the price of Comecon products on world markets. In requiring CT, the Comecon countries believe they will not be forced to reduce prices as a result of the difficulty in disposing of their goods on international markets in competition with Western distributors. But they would be hard-pressed to answer the questions: When and if your products and services meet world standards, why will you have to resort to countertrade pressures? Would you not be able to dispose of your production directly?

From a Western point of view, as long as the laws of free trade do not apply between East and West, Western industry should not be exposed to danger from cheap subsidized Comecon products. Such exposure can only lead to the growing trend in many countries towards trade protectionism. The erection of more and more trade barriers, albeit rationally motivated, leads to increasing repercussions in other nations. This benefits no one.

CT represents an attempt by Comecon and some of the less industrialized nations to balance their trade deficits and to create employment in their countries and for some managers of Comecon foreign trading organizations to improve the appearance of their performance. On a world scale, some forms of CT, particularly compensation deals, can lead to better capacity utilization and distribution of labour when components manufactured in less industrialized countries and supplied to Western factories are incorporated in an end product which is marketed under the same trademark as before. Similarly, East and West specialization in the manufacture and exchange of given products within a product line can result in cost reductions through specialization and longer production runs. Nevertheless, in the short and medium term, it is hard to make a sound economic argument to support most CT demands.

III. GROWTH OF COUNTERTRADE

Countertrade Forces - World

Although CT is not a legislated requirement in most of the Eastern Bloc nations, all indications are that this form of trade will grow in importance in the long-term economic planning of these countries. At the FTO level, ministerial directives regarding CT are being implemented with increasing rigidity and complexity and applied to a wider range of Western goods.

Supported by inadequate export marketing networks, facing lagging demand and protectionistic attitudes towards a number of their exports in Western markets, and beset by scarce hard currency in their own and other developing nations' markets, many developing countries are pressing CT demands as a means of creating a market for their exports and as a substitute for cash payments for needed imports. Further, developing countries are expected to average, in the 1980's, an annual growth domestic product increase of around five per cent, compared to less than three per cent for the industrialized nations.* This growth is expected to create real market opportunities for Western exporters which can meet the CT requirements.

* United States Department of Commerce, "Countertrade practices in East Europe, the Soviet Union and China", An Introductory Guide to Business, April 1980.