form of
- (i) research and development conducted abroad;
- (ii) technical assistance provided to the subsidiary or joint venture (see Overseas Investment above);
- (iii) other activities under direct commercial arrangement between the manufacturer and a foreign entity.

The forms of the offset in individual contracts may vary according to the needs and desires of the procuring country. The opportunities for undertaking offsets may also be limited by the level and sophistication of the industrial base and the country's comparative economic advantages.

E) Buyback

Buyback is most commonly found in the sale or modification of capital plant and equipment. It can involve either partial or full payment by means of the resultant product or a commitment to purchase the resultant product. Such deals are normally for large sums and involve a longer fulfillment period, anywhere from 5 to 15 years. Buyback percentages of the original sale may vary. Buyback commonly involves large-scale corporations with the marketing structure and internal capacity to absorb the buyback obligation. The contractual arrangements may be similar to counterpurchase, with the two transactions linked but financially separate.

F) Bilateral Agreements

Bilateral trade and payments arrangements are a systematized form of barter, binding all or a certain amount of trade between two countries. This may arise from the lack of hard currency of one or both countries. These trade balancing arrangements commonly make use of clearing accounts, which permit trade to take place without the need for foreign exchange and which are normally balanced after a pre-determined time. Such agreements are common amongst Comecon and less-developed nations.

From time to time, trade under bilateral agreements may become severely imbalanced and difficult to clear, primarily towards the end of the agreed-upon accounting period. Under such circumstances, one country may owe the partner an outstanding amount of goods, but may be unable or unwilling to supply. An exporter wishing to sell goods to the partner can access this surplus owing through switch trading, usually through a switch specialist, with the sale being credited to the owing country's account. Normally, however, the goods sold must be from the previously agreed-upon list of goods to be exchanged. Payment is made by the owing country through the switch specialist (less a fee) to the exporter.

GLOBAL COUNTERTRADE PERSPECTIVE

The current and rapid developments in countertrade have their origin in the ten-fold increase in oil prices which took place between 1973 and 1980, which saw the Western banking system awash with petro-dollars. All through the 1970's these petro-dollars were recycled to East European and developing countries to finance industrial development projects (and in some cases, oil imports) with the end result that they were soon saddled with huge external debts. Towards the end of the 1970's, they started to experience difficulties in meeting their loan-servicing obligations. Their already precarious position was further accelerated by the dramatic increase in interest rates of the early 1980's, the concurrent global economic recession, and the resultant drop in commodity prices. As commodity exports have been major generators of foreign exchange for many developing nations, the drop in prices further aggravated their situation.

As a result of these conditions, East European countries began in the 1970's to increasingly use countertrade as a practical way of generating some or all of their hard currency needs for new industrial projects. It was also seen as a way to foster exports to the West and to minimize the outlay of their hard currency. This concept, which was considered successful, was soon copied by a number of underdeveloped and developing countries.

Various press reports cite the amount of countertrade as being anywhere from 1-40% of global trade, or somewhere in the vicinity of $15-900 billion (US). The reasons for the tremendous variations in global estimates are caused by the lack of agreement on what constitutes countertrade, the lack of data on transactions and the secrecy that surrounds its practice. A conservative estimate of about 10% of world trade, developed by Business International of New York, appears to be the most widely accepted figure.

Any full examination of global countertrade needs to be conducted on a regional basis. This would include the following factors:

1. East-West countertrade between Organization for Economic Co-operation and Development (OECD) countries and Eastern bloc countries;
2. North-South countertrade between OECD and less-developed countries (LDCs) or newly-industrialized countries (NICs);
3. South-South countertrade between LDCs and NICs;
4. East-East countertrade between Eastern bloc countries;
5. East-South countertrade between Eastern bloc countries and LDCs or NICs;
6. North-North countertrade between OECD countries. This is not always recognized as countertrade since it is associated with military procurement.

The statistics that should be of particular relevance to exporters are those pertaining to the East-West and North-South countertrade. These represented 20% and 6% of OECD exports to these regions, respectively, in 1984.

It is evident that numerous forms of countertrade are being currently practised for a variety of reasons. Participating countries (some 88 identified in a study conducted by the New York Foreign Trade Council) vary in their experience with, and results from, countertrade and are continually refining their policies or legislation to extract the maximum benefits (actual or perceived) from the practice. These changes in the direction and growth of countertrade, and the continuing indebtedness of developing countries, will ensure that countertrade will remain a dominant feature of global trade for the forseeable future.

CANADIAN COUNTERTRADE PERSPECTIVE

While countertrade may affect 10% of world trade, Canadian exports have been minimally affected to date. The key factors which have kept this impact minimal include the following:

1. the dominance of the U.S. and other OECD countries as export markets for Canadian goods;
2. the predominance of food and raw material exports in Canada's exports which, to date, have not been subject to extensive countertrade pressures.