Malaysia's commodities and manufactured products and to reduce the undeniable political effects of trade surpluses.

A list of goods available for countertrade has been prepared by the Trade Ministry but as it appears to list all of Malaysia's exports, its utility is limited. It has been determined that readily marketed goods, notably tin and rubber, may only be countertraded to developing nations and that countertrade is to be used where Malaysia's manufactured products face entry and marketing problems. Imported goods must be priority items which are either not manufactured in Malaysia, or are manufactured only in insufficient quantities. This includes machinery and equipment, fertilizers, rice, sugar, cotton and chemical products. In order to qualify for countertrade, exports must be shown to be additional to Malaysia's normal sales abroad.

Unlike Indonesia, which has fixed the percentage of countertrade required in a contract, most terms are negotiable in Malaysia. Unit Khas countertrade, in the International Trade Division of the Ministry of Trade and Industry, is responsible for drawing up lists of available goods, determining if an offer is acceptable and assisting in determining sources of supply. It is hoped that the guidelines will eventually be adopted by the private sector.

Countertrade deals to date have included the purchase of Yugoslavian electrical equipment in exchange for tin and rubber, and steel rails from Japan for tin, rubber, crude oil and palm oil. In an offset arrangement, Malaysia has purchased two patrol boats from South Korea, one to be imported and the other to be constructed in a Malaysian shipyard in exchange for a 100% compensation in crude oil, palm oil and timber. In a very recent transaction, a major Japanese trading house sold a container gantry crane to the Klang Port Authority and has agreed to purchase veneer, plywood and related timber products.

A recent call for tenders for the purchase of air traffic control equipment required bidders to submit offers with a 100% counterpurchase requirement. The bid requirements further included a Letter of Undertaking, a Compensation Agreement and an Assignment Agreement in draft form. The penalty for non-fulfillment of obligations in this instance was limited to 15%.

Trade and Foreign Exchange Controls

In order to protect local industries, a number of imports are subject to quotas, which are reviewed from time to time. Specific import licenses are required for certain other imports, including all those from China. Foreign exchange is made available for permitted imports after exchange control requirements are met.

In normal trade transaction, proceeds from the sale of exports are to be repatriated to any commercial bank in Malaysia within six months. In a countertrade situation, the central bank approves procedures for the settlement of accounts on a case-by-case basis.

Exports, including rubber, textiles, fish, meat, sugar, soap, iron and certain other commodities, require licenses.

MEXICO

Mexico is faced with one of the world's largest foreign debts, estimated at $82 billion (US), and has looked to countertrade as a tool to address this problem. Mexico's latest Industrial Development and Foreign Trade Program proposes to rectify the country's balance of payments problem through countertrade. By 1988, manufacturers will be expected to cover 50% of their imports by exports and by 1995, this figure is supposed to rise to 75%.

In December 1982, Mexico set out its 'Exchange Controls Decree', amended in March 1983 by the 'Supplementary Exchange Control Rules Applicable to the Use and Transfer of Foreign Exchange Generated by Exports'. It was further amended in February 1984 by additional rules that stipulated how foreign exchange proceeds may be left in accounts abroad to be used for purchasing imports.

The rules state that all barter and countertrade transactions require the approval of the Bank of Mexico and the Ministry of Trade and Industrial Promotion (SECOFIN). When the proposal is accepted, the Mexican exporter receives a permit stating that there is no right of acquisition of foreign exchange; and payment for imports shall be charged to the exporter of the specified goods. If the Mexican exporter receives cash as partial payment, it is allowed use of the foreign exchange proceeds to finance its own imports. Any foreign currency not so used is sold at the controlled rate of exchange to the government through national credit institutions, and special receipts, called 'comprobantes', are issued.

Comprobantes allow the Mexican exporter to acquire foreign currency at the controlled rate of exchange in the amount that it has generated from exports and sold to the credit institutions. The controlled rate is less than free-market, so it is to the benefit of the Mexican exporter to obtain comprobantes. Furthermore, the certificates may be transferred, so that an importer may have access to cheaper foreign exchange. In order to effect the transfer, the importer must present an import permit, the exporter's proof-of-sale of foreign exchange and the authorization by SECOFIN to the credit institution.

The criteria for approval of countertrade proposals are basically that the goods used for counterpurchase must not be traditional exports or, if they are, then they must be sold in a market that would be new. Although SECOFIN and the Bank of Mexico actually make the decision for approval, all administrative work is carried out by the Mexican Institute of Foreign Trade (IMCE) which co-ordinates all countertrade deals. Initial enthusiasm for countertrade has waned somewhat as it appears that there was no notable increase in Mexican exports achieved through this method.

The view is that where there are two identical offers to sell goods or services to Mexico, the one with an attractive countertrade component, or from a company with a history of Mexican purchases, will stand a better chance of obtaining an import permit. Special consideration is given to firms that bring Mexican exporters to new markets or provide the assistance needed to upgrade Mexican production and marketing skills to an internationally acceptable standard. Foreign firms that arrange licensing agreements are expected to transfer designs as well as production, and they must also engage in research and development in Mexico.

Private countertrade activity has been fairly limited, but it appears that the prospects for deals with state-owned enterprises are encouraging. The government owns 380 companies, of which the top ten account for 80-90% of all Mexican foreign trade. The state enterprises have successfully dealt with Mexican capital goods instead of commodities. Oil and other hydrocarbons will not be eligible for countertrade as hard currency earners, although the Mexican/Brazilian clearing agreement has resulted in the sale of Mexican oil for Brazilian foodstuffs and oil-drilling equipment.

State enterprises have sold railway cars to the U.S. for cash and reduction of outstanding debts; iron products for plant and equipment; and tubes for oil-drilling for Soviet technical assistance, equipment and spares. Volkswagen's Mexican subsidiary has been selling coffee, under certain conditions, in return for permission to import auto parts.

Trade and Foreign Exchange Controls

All imports require licenses issued by SECOFIN. The