nical assistance to the Chinese factory, which uses its improved production capacity to pay the supplier, who is responsible for marketing the goods outside of China. Raw materials may be imported, processed by the factory in China and re-exported by the Western supplier, for which the Chinese partner receives a fee. AMF, the American conglomerate, produces sporting goods in China, a large percentage of which are taken back by AMF and sold on the world market. AMF has also arranged the shipment of machinery to produce electrical relays and supervises the production and quality control of the relays, buying back a percentage of the production. It is reported that AMF gave the production machinery to its Chinese partner for a ten-year period, at the end of which time the partner may exercise an option to purchase.

China has a number of bilateral trading agreements and is concerned that any goods exported as part of a countertrade obligation go to balance trade. However, there is no mechanism that ensures that the goods are shipped to a nation which is actually the end-user.

Because of the complexities of the Chinese market and the very recent decentralization which has seen many Chinese state companies leased by communes or individuals, it may be advisable to use the services of a trading house or other business organization based in Hong Kong. A complex deal involving the construction of a motorcycle plant was arranged between a Chinese motorcycle producer and a Hong Kong firm, which was responsible for overseeing construction and start-up of the project. It was this Hong Kong firm that made arrangements to license and build the products of a Japanese company, for which the licensor receives a royalty.

Deals seem never to be concluded in less than six months, with most taking over a year. It is believed that persistance is one of the key requirements for any Western firm wishing to operate in China. 3M, which is the only totally-owned foreign firm with manufacturing facilities in China outside of the Special Economic Zones, spent over two years negotiating its entry. The company went to great lengths to assure the government that it produced a high-quality and diversified product line.

A key item in the negotiation of any contractual arrangement is to structure the proposal in a manner such that the Chinese partner may report that it is receiving product, equipment, or services, free of charge. It is also important to emphasize the profit accruing to the Chinese partner as the importance of profit is now officially recognized in China.

Entry may be available to the Chinese market where exporters of Western goods are willing to enter into buy-back arrangements, particularly in the energy field — oil exploration and production — as well as in transportation, telecommunications and high-tech products, the textile and chemical industries, the capital goods sector, agriculture, and tourism. While the Chinese are moving at a slow pace, the future of countertrade appears to be signficant and is an effective way of meeting the government's economic goals.

Trade and Foreign Exchange Controls

The Ministry of Foreign Economic Relations and Trade (MFERT) is responsible for setting policy for foreign trade activities and licensing imports and exports. The State Administration Exchange Control (SEAC) approves the release of foreign exchange, which is handled by the Bank of China. As foreign trade is conducted on the basis of a foreign trade plan, which is part of the five-year plan, there is not much latitude in arranging imports. All trade with Israel, South Korea, and the Republic of South Africa is prohibited. All foreign exchange earned by Chinese enterprises must be sold to the Bank of China, except where regulations permit retention of some of the earnings.

COLOMBIA

Colombia has used countertrade on a limited basis for a number of years and has dealt with COMECON nations in this fashion. In December 1983, a new Foreign Trade Law was enacted that recognized, among other aims, the desirability of a barter system of trade and the existence of arrangements termed compensation, swap and triangulation. Subsequently, regulations concerning the policies set out in the framework law were enacted by Executive Decree No. 370, issued in February 1984 in the name of the President by the Ministry of Economic Development. Colombian authorities hoped to develop additional markets for their primary products. However, many products were excluded and very few transactions occurred. Therefore, in the spring of 1985, the Colombian government declared that it would phase out countertrade in the near future.

The Colombian Foreign Trade Institute (INCOMEX) is authorized to approve countertrade transactions if certain criteria are met. It must be shown that the contract will assist Colombian exports, balance of payments and economic development, that no other mechanism would be suitable for accomplishing the transaction, and that prices reflect the international market value of both the exported and imported goods. If the goods are imported first, INCOMEX requires a guarantee that the corresponding export shall take place. Contracts must link imports and exports and be signed by all four parties.

Decree No. 370 defines a swap as the exchange of goods without monetary payment. A compensation is defined as purchase and sale of goods.

Wholly Colombian products are exported at a value not necessarily equal to the value of the imported goods in the transaction. The concept of triangulation is simply recognition of the fact that a countertrade transaction involving individuals or entities domiciled in Colombia may involve three or more countries. In any of these types of barter transactions, the exporter must post a guarantee with INCOMEX to ensure the repatriation of the foreign exchange involved, in the event that no corresponding importation ultimately occurs.

It is a requirement that all countertrade agreements must be registered with INCOMEX prior to the granting of any approval, and that no approval will be given to a countertrade transaction without a contract or a protocol setting out the terms of the contract.

At the present time, regulations to implement Decree No. 370 have not been issued, but it is apparent that countertrade will be encouraged in Colombia. The country has seen a deteriorating trade balance as well as a decline in foreign exchange reserves. INCOMEX has established a list of products, mainly of a high-tech, high-value nature, whose importation requires counterpurchases or barter for Colombian goods. The exporting party must demonstrate that the countertrade commodities are above and beyond Colombia's normal export levels.

A difficulty facing the prospective countertrader is in finding suitable Colombian exports in appropriate quantities. The major export product is coffee, which is subject to restrictions under the International Coffee Agreement. Many other agricultural products are not price competitive. Barter deals in coal and nickel are not permitted on convertible currency markets.

Among the countertrade transactions which have taken place, Colombia has traded coffee for streetcars from Romania and the U.S.S.R., and for buses from Spain's