

Countertrade goods from Bulgaria are generally uncompetitive and have a poor reputation on the basis of price, marketability and availability. Exporters are particularly advised to avoid any requirement to counterpurchase machined technical goods. While transportation and materials handling equipment are primary product categories given a high priority in the Bulgarian drive to export using countertrade, Western suppliers would put themselves in a more favourable position by contracting to counterpurchase products from the chemical industry, such as solvents, synthetic resins and plastic components, where quality is known and delivery terms usually met.

Cross-sector countertrading may be difficult as linkage between the various foreign trade organizations is poor. The Ministry of Foreign Trade can provide a co-ordinating service on priority transactions.

CHILE

Chile has no regulations concerning countertrade except for a 1975 law which relates to the local content requirements of the Chilean automobile industry. Chile adheres to free-market economic principles and government officials have considered countertrade to be unnecessary and impractical. Although Chile does have foreign debt of approximately \$20 billion (US), it has a low inflation rate and a generally stable economy.

Although current foreign exchange shortages have caused the government to examine countertrade proposals on an ad hoc basis, Chile still has had very little experience with countertrade. Copper, which accounts for 46% of the country's exports, is not amenable to use as a countertrade item: copper sells on an entirely commercial basis at prices which are determined on commodities exchanges. Also, Chile doesn't have the sort of draconian exchange controls which are often a reason for countertrade arrangements.

Any firm intending to arrange a countertrade deal must receive the approval of the General Director of International Economic Relations at the Ministry of Foreign Relations. Due to the lack of guidelines, it is difficult to see on what basis approval would be granted or withheld.

Trade and Foreign Exchange Controls

Import declarations must be obtained and processed through local commercial banks and subsequently approved by the Central Bank. Foreign exchange for import payments will be released 120 days after shipment. Authorization by the Central Bank is required for imports which have deferred payment terms exceeding 360 days. All imports are subject to value added taxes and duty, although they may be reduced on the import of capital goods which are used in export operations.

Export-derived foreign exchange must be repatriated within 90 days. The Central Bank may give permission to an exporter to retain up to 5% of export proceeds in a special foreign exchange account, up to an annual limit of \$100,000 (US).

CHINA

The present state of countertrade in China is a reflection of the government's economic goals. Commencing in 1978, China embarked on a massive modernization effort which has seen the volume of imports into the country rise significantly and an inflow of over \$8 billion (US) in foreign investment. Unfortunately, it soon became apparent that China's foreign currency reserves would not be adequate to meet the new demand and since 1979, expansion has proceeded at a more modest pace, with some projects being postponed or even cancelled. China's leadership has a dislike of debt and aims to use hard cur-

rency reserves for debt payment only for absolutely vital purchases.

Western firms wishing to supply goods to China must be aware of the government's current aims and attitudes. Priority has now been given to projects that do not require much hard currency, that provide a rapid return on investment, and that have a high hard-currency export potential. Chinese economic and political goals are met primarily through the use of joint ventures with foreign companies and through a fairly limited countertrade scheme that emphasizes buy-back arrangements. In essence, China is willing to accept a more controlled rate of growth than previously planned, and wishes to link its hard currency import expenditure to corresponding exports.

Since 1978, there has also been a decentralization of the economic administration in China. Whereas all transactions were once the responsibility of the Ministry of Foreign Economic Relations and Trade (MFERT), and subsequently the province of a number of Chinese foreign trade organizations, a greater amount of autonomy has been given to a large group of new import-export companies. While the system has become more competitive domestically, any prospective countertrader should be forewarned that horizontal linkage between Chinese companies is still chaotic. Most countertrade goods are obtained directly from the Chinese purchaser of western goods; any contract which would require the services or goods of a third party may not be fulfilled.

Buy-back transactions are favoured not only because the amount of foreign currency spent is limited, but also because Western technology may be used to update obsolete Chinese production, train Chinese workers and bring Chinese goods up to a world standard. Once the countertrade obligation to purchase has been fulfilled, the Chinese goods may remain in a strong position in the export market. In some cases, the Chinese government has required a Western supplier to take an equity position in the importing Chinese company. In this way, some countertrade has been disguised as joint ventures.

Since there are no official guidelines for the conduct of countertrade, it may not be apparent to a Western supplier submitting a bid that a countertrade commitment would be necessary. Although Chinese firms do not employ the same negotiating tactic as some Eastern European nations of suddenly requiring countertrade at a late stage in the bargaining, any supplier would be well advised to determine immediately if the purchases are to be made for cash or through some form of compensation. It appears that countertrade is worked purely on a case-by-case basis where there are few or no competitors: a Western company providing a very high priority import may not face any countertrade obligations at all. On the other hand, a purveyor of non-priority goods may not be paid in cash. For example, a West German firm interested in setting up an amusement park in China was advised that payment would be in the form of goods.

A number of compensation agreements have been successful for both parties involved. For example, a French company that exported machinery required for shipbuilding received parts for deck cranes in return. In this situation, the French supplier received goods of world quality, which were produced on their own machinery, and they were able to utilize the goods in-house or dispose of them through an existing customer. In a more complex deal, a Hong Kong company shipped West German polyester filament machinery to a factory being built by a Swiss engineering firm in China; in return it received polyester filament produced on the machinery.

These transactions may be arranged in various ways: the Western company may provide equipment and tech-