Electric will invest with Saudi Airlines to establish a jet engine overhaul facility.

During the 1984 gestation of the MODA offset program, Saudi government and business leaders increasingly looked to offsets as the formula for future industrial development, employment creation and import substitution, in the face of rapidly declining government income from petroleum exports. However, the current economic retrenchment has produced considerable reassessment of the long anticipated prospects for implementing offsets beyond the Boeing and General Electric projects, in such sectors as mineral extraction and processing, machinery production and food processing.

With petroleum output running at about one-third previous levels, the resultant cutback in income has restricted the 1985-86 government budget and compelled many Saudi companies to utilize their capital reserves as working capital until contract payments are received. The result is that most Saudi government and private venture capital, originally targeted for new joint ventures, has dried up or remained invested abroad. The Saudi Industrial Investment Fund has thus been left to provide most of the approximately $720 million in capital to at least match the Boeing and General Electric commitments.

With the Saudi economy expected to remain in a consolidation stage until 1990, it is now thought that the Saudis will have neither the venture capital nor the high-tech human resources to expand the offset program significantly beyond this $1.5 billion (US) investment in next generation technology transfers.

While the government continues to caution foreign companies that offsets may be a prerequisite component of major future purchases, the MODA policy has not been duplicated as Saudis apparently wait to measure the success of this first experiment.

In contrast to offsets, barter or counterpurchase of petroleum products has not been endorsed officially and has been used only exceptionally as a Saudi trade policy instrument. In January 1984, the Ministry of Defence and Aviation announced the purchase of $4.8 billion (US) in French anti-aircraft missile systems, while subsequently denying that some $1.2 billion of the payment was made in discounted oil. This was followed, in August 1984, by government acknowledgement of a western aircraft industry announcement that ten Boeing 747 aircraft with Rolls Royce engines had been sold to Saudi Arabia (MODA) in exchange for Rolls Royce accepting $1 billion (US) in petroleum products. It is thought that subsequent Saudi assessment of the impact of this unexpected injection of petroleum into finely balanced international markets has cancelled any further consideration of other proposed oil-for-arms deals.

### Trade and Foreign Exchange Controls

Import and export licenses are not required, although some imports are prohibited and others such as medicine, may be brought in only through licensed dealers.

No controls are placed over foreign exchange proceeds. Subsidies are available for some exports.

## TANZANIA

Tanzania has recently adopted countertrade as a part of its general foreign trade policy alternative to using scarce foreign exchange. It has previously had extensive experience with East European nations through its bilateral clearing accords. Despite this move to countertrade, Tanzania has an official policy prohibiting countertrade in 'traditional exports', which includes coffee, tea, cotton, raw sisal, tobacco, cashews and cloves, and probably rubber and semi-precious stones. These goods are Tanzania's most saleable export goods although the government has suggested sisal twine, finished leather and cotton goods would be available. However, government policy appears to be highly flexible and traditional exports are available to parties wishing to import high priority items, such as raw materials, spares and pharmaceuticals.

Tanzania also appears interested in buy-back arrangements. A Bulgarian supplier of tanning chemicals is being paid with semi-processed leather and, in another case, a Bulgarian supplier of textile dyes is receiving dyed yarn. Joint ventures do not appear to be utilized to any large extent, although the government is now encouraging them between Tanzanian public and private-sector companies and foreign firms.

Bilateral trade agreements have proven successful for Tanzania. It has exchanged coffee, cotton, tea and tobacco for medical equipment, bicycles, dyes, veterinary drugs and soap from the GDR; textiles for refrigerators, tires and batteries from Mozambique; and sisal products, cloves and seafood for Zimbabwean farm equipment, coal and iron.

Any negotiations involving countertrade should start with the ministry responsible for the sector of the economy which will be importing the foreign product. That ministry will then, in turn, deal with the Ministry of Trade for authorization, and final approval will come from the Ministry of Finance and the Central Bank.

Obtaining goods from Tanzania may be an arduous task. Should the foreign supplier be able to find goods for countertrade, it would be well advised to conduct a rigorous quality analysis before shipping. Transport itself is a great problem and it may be difficult to get the goods to port. Although Tanzania has the most experience in countertrade of any African nation, co-ordination between the various government ministries is chaotic. The economic situation in Tanzania will probably not improve significantly, although the government has recently adopted a more liberal attitude for trade and is now allowing the retention of foreign exchange in an external account to finance the import of raw materials. This has resulted in the import of a number of consumer and capital goods that have been excluded over the past few years.

### Trade and Foreign Exchange Controls

Although the general rule has been that exporters are required to surrender all foreign exchange proceeds, the government has attempted to liberalize its requirements. Existing firms in the agriculture, port and tourist sectors may retain 10-15% of their proceeds in a separate account in order to help finance their own imports. Newly-established firms may be allowed to obtain a far greater share. Exporters also have been given the right to maintain foreign bank accounts.

## THAILAND

Although countertrade has attracted considerable interest in Thailand, its use has been limited, probably due to the make-up of the Thai economy. The private sector is highly influential and the government has accordingly pursued a policy of free trade. Nonetheless, the Ministry of Commerce established a high-level countertrade unit in September 1984 to establish policy guidelines and set out conditions which would encourage foreign suppliers of government agencies to buy Thai goods, particularly surplus agricultural products. Some initial discussion of counterpurchase has taken place with regard to military procurements, but nothing has come of these talks.

Agricultural sales have been the most prevalent and are handled by the Marketing Organization for Farmers (MOF), a state corporation controlled by the Ministry of Agriculture and Co-operatives. In 1981, Thailand entered into large-scale barter agreements with South Korea, Romania