

## I. REASONS FOR COUNTERTRADE (CT)

### A. Eastern European and Third-World Countries

Eastern European and some developing countries make demands for countertrade (CT) arrangements for a number of reasons:

1. They wish to minimize their outlay of scarce "hard" currency. (1).
  - in 1977 more than \$18 billion in East Bloc debt to the West was paid off through CT transactions
2. Developing countries, in the face of widely fluctuating world market prices for their commodity exports, look at CT arrangements as one possible way of stabilizing production and prices.
3. CT transactions, particularly compensation deals which extend over several years, help to stabilize swings in the trade turnover with Western countries.
4. Countertrade is a means of penetrating new markets in the West. Many export enterprises which require CT lack the needed skills and techniques to successfully market their manufactured products abroad. Compensation agreements with Western firms with their established market networks make it possible to sell products at more stable prices and over a longer period of time than would be the case if Eastern Bloc export enterprises attempted to sell their products on world markets themselves.
5. CT techniques may serve to disguise price discrimination and dumping or to circumvent foreign exchange controls since transactions can be made without actual price disclosure.
6. Eastern Bloc countries prefer bilateralism to multilateralism, for economic and ideological reasons. The different forms of countertrade reflect this preference for bilateralism.
7. Countertrade arrangements are seen by many Eastern Bloc foreign trade organizations (FTO's) as a valuable psychological bargaining weapon. Officials in the FTO's feel they stand a better chance of gaining further price discounts by asking for counterpurchase rather than by directly asking for an additional price reduction. Then they try to trade off the elimination of the counterpurchase requirement for a lower price.
8. State trading officials can point to countertrade successes as indicators of their good performance in improving exports.

### B. Western Firms

Western firms, even if reluctantly, accept countertrade arrangements for the following reasons:

1. Acceptance of countertrade commitments can be an important factor in postponing licensing requests by importing Communist FTO's.
2. The willingness of Western firms to accept CT arrangements usually allows a sale to take place and perhaps gain an edge on competition.

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(1) The estimated debt of the non-OPEC LDC's is US\$300 billion and the overall debt service is approximately US\$50 billion