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Lynn University

Countertrade: Can We Afford To Ignore The Impact On The World
Market?

MIM 665 Graduate Project in International Management

April 10, 1995

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Abstract

In recent years the issue of countertrade has received more and more attention. In this examination of countertrade it is the aim to create first, an understanding of what countertrade is and how the particular forms are used. The reader will understand that essentially there are five forms of countertrade, barter; counterpurchase; compensation; offset; and switch. Upon this comprehension an analysis of the buyer and seller's perspective is discussed. When a firm or country contemplates the use of countertrade it is necessary to understand which form of countertrade to use and how other parties will view the form of countertrade you choose. An integration of this literature with countertrade across the globe becomes vital to clarifying the importance of this subject matter. In order for the United States government to understand the necessity of countertrade it is important to exemplify the many uses of this form of international trade. After reading this analysis of countertrade one will see that countertrade supports economies of developed as well as undeveloped countries. Estimates place countertrade at 20-25% of world trade, and some reports suggest that it can be as high as 45%.

Introduction

In 1870, Ralph Waldo Emerson exclaimed, "The Greatest meliorator of the world is selfish, huckstering trade (Carruth & Ehrlich, 1988)." How great is the power of trade? A question that has crossed the greatest minds in our past and will continue to do so in the future. As our world continues to grow, as technology continues to make communication easier, as we begin to become more and more global, will we be able to balance trade among the nations of the world?

On December 15, 1993, 117 countries concluded a major agreement to reduce barriers blocking exports to world markets, to extend coverage and enhance disciplines on critical areas of trade, and to create a more fair, more comprehensive, more effective, and more enforceable set of world trade rules. This agreement called Uruguay Round is a hope for a clearer future in the world of trade. According to figure 1 the U.S. is expanding its exports to the world's major markets at an explosive rate (U.S. Department of Commerce, 1993).

What is the importance of world trade for the United States? The U.S. today, is now woven into the global economy. What does this mean? Where we once bought, sold, and produced almost entirely at home we now participate fully in the global marketplace. By expanding our sales abroad, we create new jobs at home and we expand our own economy. The new world trade agreement will enable us to create new jobs in our most

competitive industries. Trade (exports plus imports) is now equivalent to about a quarter of the value of what we produce as a nation. This figure is up 13% from two decades ago (U.S. Department of Commerce, 1993).

In 1992, over seven million workers in the U.S. owed their jobs to merchandise exports (see figure 2). Of those roughly one-third were employed by industries directly producing merchandise for export; two-thirds were employed in job indirectly supported by exports. An additional 3.5 million U.S. workers owed their jobs to U.S. service exports (U.S. Department of Commerce, 1993).

Evidence of the importance of exports can also be seen by looking at figure 3. (In this figure one can see that the amount of U.S. dollars in the trillions has increased from 1987 to 1993). Another indicator is shown in figure 4 in terms of state export growth (U.S. Department of Commerce). Exporting of the United States goods and services will ultimately prove to be our key to future prosperity.

What is in the Uruguay Round Agreement?

This historic agreement will:

- * cut foreign tariffs on manufactured products by over one-third, the largest reduction in history;
- * protect the intellectual property of U.S. entrepreneurs in industries such as pharmaceutical, entertainment, and software from piracy in world markets;
- * ensure open foreign markets for U.S. exporters of services

such as accounting, advertising, computer services, tourism, engineering, and construction;

- * greatly expand export opportunities for U.S. agricultural products by limiting the ability of foreign governments to restrict the trade through tariffs, quotas, subsidies, and a variety of other domestic policies and regulations;
- * ensure that developing countries follow the same trade rules as developed countries and that there will be no "free riders";
- * establish an effective set of rules for the prompt settlement of disputes, thus eliminating shortcomings in the current system that allowed countries to drag out the process and to block judgements they did not like; and
- * create a new World Trade Organization (WTO) to implement the agreements reached (U.S. Department of Commerce, 1993).

As it is impressive what the agreement will do for world trade it is also important to examine an area that the agreement fails to recognize. That area is countertrade. Consistent with its commitment to a nondiscriminatory free trading system as embodied in the General Agreement on Tariffs and Trade (GATT), the U.S. government is opposed to government mandated countertrade. Such practices represent a direct government intervention in the marketplace which minimizes the dynamics of market forces and introduces noncommercial considerations (Verzaria, 1992). Although there is much waffling by the U.S. government, no one can dispute that a

consensus of experts estimates that the percentage of world trade financed through countertrade transactions is between 20 and 25% (Okoroafo, 1988). More recently, Countertrade Outlook (1992), quotes an official estimate of countertrade as "at least 8-15% of international trade and the proportion could be as high as 45% (Paun & Albaum, 1993).

It will be important to examine several aspects of countertrade. In analyzing this issue it is vital that one look at what countertrade is, how it works, and what it's importance is to the world market. To understand it in reality it will then be important to look at several regions of the world and closely scrutinize why several regions of the world cannot prosper without countertrade. Upon the realization that countertrade is necessary it will then be necessary to discuss the U.S. governments role in dealing with the issue of countertrade. Finally, in the concluding arguments this paper will support the theory that due to the instability of several currencies around the world, countertrade will prove to be the alternative to not trading at all. More importantly, this paper will support the notion that the world market can not survive without countertrade.

What is countertrade? Pompiliu Verzaria (1992), clearly defines countertrade as,

"a practice whereby a supplier commits contractually as a condition of sale to reciprocate and undertake certain specified commercial initiatives that

compensate and benefit the buyer. While the manner in which the transaction is structured and the assets are exchanged may vary in different compensatory transactions such as barter, buyback, counterpurchase, and offset. The distinctive feature of these arrangements is the mandatory performance element that is either required by the importer or is made necessary by competitive considerations (Verzariu, 1992)."

According to the U.S. International Trade Commission, virtually all countertrade practices can be grouped into five basic types of transactions: Barter, counterpurchase, offsets, compensation, and switch (Palia & Yoon, 1994).

Forms Of Countertrade

First, let us examine barter. Barter in its most simplistic definition refers to the contractual, direct exchange of goods or services between two principals without the use of currencies (Palia & Yoon, 1994). In this exchange the two contracting parties decide the values of the products or services to be exchanged. Barter agreements are often consummated within one year. If there are longer periods required provisions are made for adjusting the exchange ratio in response to the price fluctuations (Palia & Yoon, 1994). The transfer of most goods will usually be done through a single contract. The agreements will be concluded between governments. Barter transactions often gain popularity with countries that have an unstable currency. The bartering of

merchandise has increased among countries with planned economies (Palia & Yoon, 1994).

Barter is definitely driven by a money crunch, claims Jerry Galuten, president of SGD International, a New York based bartering company. Galuten (1993), claims that, "There's a world shortage of currency except for Japan, and their even starting to feel the crunch." Galuten explains that sometimes the bargaining can get complicated. SGD International recently supplied a load of latex rubber to a Czech company in exchange for 10,000 yards of finished carpeting. Galuten then exchanged the carpeting with a hotel for room credits. The rooms were then traded to a Japanese company for electronic equipment, which were then bartered away for convention space. The final conclusion of the deal was when Galuten bartered the convention space for ad space that his company needed (Miller, 1993).

Galuten claims that the most publicized barter trade was Pepsico's \$3 billion dollar deal with the Soviet Union, exchanging bottles of Pepsi for profits in Stolichanaya Vodka, oceangoing freighters, and tankers. Pepsico was involved in the largest single deal, however, General Electric involves itself heavily with barter for the single reason that they deal with many third world countries. General Electric will trade for goods and bring them to a country that wants or needs the products and eventually collect their money (Miller, 1993).

Dan O'Flaherty, vice-president of the National Foreign Trade Council Federation, Washington, D.C., agreed that international countertrade is sometimes necessary, but that does not mean he likes it. O'Flaherty claims that, "Countertrade takes the elegance out of the economic situation. It denies convertibility, you end up with goods to sell which is less advantageous than having the money (Miller, 1993)."

Today, bartering is becoming more complicated. Some companies hoping to collect money on the deal may involve themselves in parallel barter which consists of two contracts. Under this type of barter the exchange consists of both goods and money, since the good being exchanged may not be of equal value (Plank, Reid, & Bates, 1994).

Mr. L. Finley of International commodities reports that bartering continues to grow as a practice of many multinational corporations (see figure 5). Finley claims, (1993), that "the key to barter transactions is flexibility." While a cash deal is always preferable, one must consider that when you do not have any other way of financing your exports, barter may be the only solution (Resnick, 1993).

Often if you use the word barter in conversation one may think you want to trade some bread for a chicken, in reality this is not the case. Say the word "barter" to Bill Steinberg, president of Tradewell Inc., a New York based company, and he will tell you about phone deals in the

millions. Steinberg represents Pepsico, Scott, Coca-Cola, Platex, Texaco, and Perrier. Steinberg claims (1994), "The competition is fierce in the bartering world." U.S. bartering companies reported, this form of countertrade was a 7 billion dollar business in 1993 (Anonymous, 1994).

In this examination of barter it is important to set apart the difference between barter and "corporate barter", which is entirely a different concept. Barter as discussed previously, involves western companies accepting payment in-kind because the overseas buyer is strapped for hard currency (Anonymous, 1994). Corporate barter is fundamentally a different concept. Corporate countertrade is coordinated by a third party (the barter company) and, normally offers the participating companies a better deal. So, the fundamental difference is using countertrade because it is the only way to close the deal verse using countertrade because it is a way of increasing shareholder wealth and overall growth of the company.

There are essentially two types of bartering companies. One is the barter exchange company, acting as a book keeper to a network of members, normally to small retail outlets. Each member has a credit limit, and they buy and sell goods and services to each other using trade credits, rather than cash. The barter company keeps record in a computerized ledger, charging members a small fee on each countertrade (Anonymous, 1994).

The second form of corporate barter is called corporate traders, which makes up corporate bartering's premier league. The difference is twofold: first, corporate traders act as principals, buying goods and services from their clients in return for trade credits and or cash. Second, the trade credits issued can only be redeemed by the trade company itself (Anonymous, 1994).

Is corporate barter regulated? Yes, by the Corporate Trade Council (CTC), a sub-grouping within the International Reciprocal Trade Association (IRTA). The IRTA estimates that there are 500-600 exchanges in the U.S., with approximately 250,000 members. The IRTA is in the process of collecting data on corporate barter globally but reports exchanges with Britain, Canada, Australia, Europe, and the Middle East (Anonymous, 1993).

Since, barter is the major form of countertrade it is important not to over look the other forms of countertrade. The second form of countertrade is called counterpurchase. Exporters seeking to sell their products overseas often discover during negotiations that in order for the buyer especially in developing countries (DCs) and nonmarket economies (NMEs), to agree to the purchase contracts, the seller must agree to buy or market products of the DC or NME of a value usually less than the original purchase contract (Palia & Yoon, 1994). In those instances where the products offered by the DC or NME are unrelated to the products being

sold by the exporter, the arrangement is referred to as a counterpurchase transaction (Palia & Yoon, 1994).

Counterpurchase transactions have several distinctive characteristics. The period covered by counterpurchase transactions is relatively short, ranging from one to five years. The value of countertraded goods offered by the DC or NME is usually less than the full amount of the original sales contract. The counterpurchase requirement is usually agreed upon contractually, either in the original sales contract or as a separate parallel contract (Palia & Yoon, 1994). The seller is required to fulfill their contract, failure to do so will result in a severe penalty. Examples of counterpurchase trade include:

- * **Canada** who is buying McDonnell Douglas F-18 aircraft worth \$2.4 billion. In return, the company will help Canada find customers for goods and services worth \$2.9 billion.
- * **Brazil** who asked bidders on a \$130 million space satellite for pledges to export Brazil's goods. Canada's Spar Aerospace won jointly with Edith Hughes Aircraft and will arrange imports of Brazilian products of equal value into Canada.
- * **Columbia** is asking equipment suppliers to buy its coffee. A Spanish government company did so in return for Columbia's purchase of buses from Spain's ENESA (Jain, 1993).

In concluding the discussion of counterpurchase lets examine the importance of developing countries in terms of

trade. A basic management reality in today's economic world is that businesses operate in a highly interdependent global economy, and the one hundred plus developing countries are very significant factors in the international business arena. In discussing countertrade it is imperative that one understand that developing countries are not receiving charity by developed countries, but rather, they are simply conducting business. Third world countries have provided a market for about one-third of all U.S. exports (Amann & Marin, 1994). As counterpurchase has gathered more attention in recent years it becomes more important to recognize that developing countries becoming vital to the global economy. It provides an opportunity to build their economies and at the same time profit as a result.

A third form of countertrade is offset. The offset agreement is mainly used for defense related contracts, commercial aircraft sales, and other items considered priority items by the buyer government. The principal players in an offset arrangement include the supplier (of the defense related equipment) in a developed country and a foreign government buyer (Abdel-Latif & Nugent, 1994).

In an offset agreement, the supplier is required by the buyer government to assist in, or arrange for, the marketing of products produced by firms located in the buyer country. In cooperation with the buyer, the supplier may be required to permit some portion of the exported product to be manufactured

by producers located in the buyer country (DeMarines, 1982).

Multinational's often ask the question, what are the differences between counterpurchase and offset? To answer this question is important to analyze John Angelidis's study that was published in 1993. In his research he examined counterpurchase and offset to determine their similarities and differences (Angelidis, 1993).

Angelidis' research found that companies have rediscovered ancient forms of trade and developed new methods to accompany these practices. The findings revealed that offset and counterpurchase have some advantages. However, companies which are involved in offsets tend to face a greater degree of erosion in their competitive position than companies that are involved in counterpurchase (Angelidis, 1993). In reference to their competitive position Angelidis received these statements from companies: They face a decrease in their overall profitability because of their inability to estimate accurately their overall costs and their customers can become competitors particularly in cases where there is technology transfer (Angelidis, 1993). It was also found that they will face a loss of purchasing flexibility since they sometimes have to buy their inputs from their customers. Often this loss is due to negotiation factors especially if it is the companies first involvement with offset. It was demonstrated that companies that use counterpurchases were involved in international business longer than those involved in offset

(Angelidis, 1993).

What can we learn from this information? Clearly Angelidis (1993), thinks that companies which plan to use offsets must pay close attention to the estimation of the types of costs in an offset arrangement, particularly costs not related directly to their area of expertise. It is also important to pay attention to the issue of technology transfer. If technology transfer is involved, western companies have to make sure that their contract with the foreign government includes clauses which will ensure that the transfer will not be used against the offset company once the contract is fulfilled (Angelidis, 1993). Other important elements include an awareness to any contract terms relating to the purchase of subassemblies or other goods from the importing country. It will be vitally important to include clauses in the contract referring to the acceptability of the quality of the products received. Finally, it will be necessary to ensure that the products can be sold on the world market at a profitable price (Angelidis, 1993).

Angelidis (1993), concludes by stating "that counterpurchase and offset can be used by western companies for the realization of a greater variety of benefits. However, firms need be aware of the factors discussed previously (Angelidis, 1993)." Taking it one step further it is now very clear that countertrading companies are the key ingredient to successful deals. It can be beneficial to use

a third party and pay now not later.

A fourth form of countertrade is called compensation. Compensation transactions sometimes referred to as buyback, entail the sale of plant, equipment, and or technology by one party to another (Palia & Yoon, 1994). Compensation agreements frequently involve the sale of turnkey projects and facilities that specify payment will be made in terms of the output of the plant once it becomes operational. Compensation transactions, often in hundreds of millions of dollars, are generally of much higher value than transactions involving other forms of countertrade. The product take-back period is relatively long, normally ranging from 5 to 20 years (Palia & Yoon, 1994).

Compensation can often take two distinct forms. First, there is partial compensation which entails that the buyback can be for a fraction of the original sale. The second form deals with full compensation which is for more than 100 percent of the original sale (Madura, 1992). Regardless of the form of compensation used it will be important to research the anticipated rate of return before getting involved.

In order to gain a better understanding of compensation it is beneficial to review a practical scenario dealing with countertrade. Let us assume the following information:

Ryco Chemical Company produces a wide variety of chemical products that are sold to manufacturing firms. Some of the chemicals used in its

production are imported from Concellos Chemical Company in Brazil. Concellos uses some chemicals produced by Ryco (historically Concellos has purchased these chemicals from other U.S companies, rather than using Ryco). The Brazilian cruzeiro depreciated continuously against the American dollar so that Concellos' cost of obtaining chemicals is always rising. Concellos would probably pay two times the amount for these chemicals this year because of the weak cruzeiro. They would likely attempt to pass on the higher costs by raising the prices therefore affecting the consumer. However they may not always be able to raise the prices because of the weak cruzeiro. The reason they can not do this is their competitors are directly tied to Brazil's inflation, and sell all their goods locally. This year Concellos planned to charge Ryco a price in cruzeiros that was substantially above last year's price.

(Madura, 1992)

The scenario presented allows us to gain a better understanding of what compensation or industrial cooperation management can do to benefit the Ryco Chemical Company. Ryco in order to decrease inflation must find a way to use countertrade. If they use compensation it is possible that they can arrange a deal with Concellos Chemical Company in

Brazil to purchase chemicals for their production from Ryco. It has been historically shown that Concellos does not always purchase Ryco's chemicals. In compensation theory Ryco could set up a buy-back arrangement where Brazil (Concellos) can sell chemical products to the U. S. (Ryco) in exchange for purchasing a percentage of Ryco's chemicals. Here the value of goods can be expressed in monetary terms. It appears that Ryco will benefit if Concellos agrees to all the terms of this one contract (Caves, 1992).

The question that now must be answered is, will Concellos agree to this form of countertrade? If presented with the proper advantages it is possible Concellos may agree that this form of trade is beneficial and fair. One strong argument that Ryco may use is that because of the unstable value of the cruzeiro they may be forced to do business elsewhere. It would be advantageous to Concellos to continue doing business with Ryco. Regardless of whether they can purchase chemicals from other U.S. companies they would like to keep Ryco as a customer.

According to the factors that affect the current account, if Brazil's cruzeiro decreases as it has been doing, then imports will continue to decrease as exports increase. In this case it will always cost Brazil more money to obtain imports and one can see that this is a disadvantage for Concellos. In the idea of countertrading it would be advantageous for Concellos because the value of the goods can

be expressed in monetary terms, when in fact it is the trading of each others products (Fluck, 1994).

In closing, compensation has its advantages as well as its disadvantages like all other forms of countertrade but over all as the countertrade market develops compensation is a form of trade that many multinationals must consider.

The final form of countertrade is termed switch trading. In this agreement additional parties are brought into the picture whereby part of the exchanged goods is shifted to the new party, often for cash. When one party has an unwanted balance of goods to be received from a second party, a third party in need of the goods offered by the first party, is found to purchase the goods. The proceeds of the transaction will go to the second party (Jain, 1993).

For example, Hungary agrees to trade electrical equipment defined as worth 500,000 West German deutsche marks (DM) to Egypt in return for cotton that has an open market price worth 500,000 DM. The electrical equipment goes to Cairo, and the cotton is prepared for shipment to Budapest. The dilemma is that the Hungarians do not want the cotton, so the foreign trade office sells the cotton to a French company for 450,000 DM. Hungary gets the hard currency, less a 5 to 10 percent commission that would be paid to the negotiation specialist (Jain, 1993). Now that we have examined the forms of countertrade it is important to analyze how it works.

Countertrade: A Buyer and Seller Perspective

What are the advantages that motivate transactions of countertrade? Companies involved in countertrade frequently enjoy a variety of marketing, financial, and manufacturing advantages that have resulted in increased sales, increased employment, and enhanced company competitiveness (Forker, 1992). In accepting goods or services as payments instead of cash, countertrade participants have been effective in:

- 1) **avoiding exchange controls;**
- 2) **selling to countries with inconvertible currencies;**
- 3) **marketing products in less-developed countries. Often to countries with planned economies that could not make such purchases otherwise;**
- 4) **reducing risks associated with unstable currency values.**

In overcoming these financial obstacles, countertrading firms have been able to enter new or previously closed markets, expand business contacts and sales volume, and close the gap on foreign protectionism on international business (Forker, 1992).

To understand countertrade in practice, it will be important to understand how the buyer and seller's pricing objectives. Pricing objectives in international countertrade are made clear in a study conducted by Dorothy Paun and Gerald Albaun released in 1993. The components of their study looked at 1) seller's marketing objectives, 2) buyer's marketing objectives, 3) seller's pricing strategies, 4) buyer's pricing

strategies, and 5) international countertrade outcomes (Paun & Albaum, 1993). It is their aim to peek the interest in readers to acknowledge that the seller's marketing objectives influence the seller's choice of pricing strategy. When the reader comprehends this they will ultimately realize that the buyer's marketing objectives influence the buyer's choice of pricing strategies. Later in our discussion of countertrade we will analyze the marketing strategies of corporations. The discussion is virtually useless without an understanding of how the interaction of both the seller's (Firm A) and the buyer's (Firm B) pricing strategies influence the countertrade outcome.

What are the seller's and buyer's marketing objectives? According to Paun & Albaum (1993), these objectives include the following:

Seller's Marketing

Objectives

- * increased profits
- * capitalizing on strong bargaining power
- * helping one's countertrade partner to conceal price cuts
- * signaling a high quality product
- * increasing sales volume and market share

Buyer's Marketing

Objectives

- * generating goodwill
- * acquiring badly needed products and technology
- * concealing price cuts
- * securing access to critical sources of supply
- * freeing blocked funds
- * making purchases without

- * establishing long term relationships with trading partners
- * securing government contracts
- * gaining entry into new or difficult markets
- * fully using production capacity
- * generating customer goodwill
- * disposing of surplus, obsolete or perishable products
- * gaining access to marketing networks and expertise
- deteriorating the balance of trade
- * conserving hard currencies
- * reducing heavy debt burdens
- * bypassing trade restrictions
- * establishing long-term trade relations
- * circumventing an overvalued currency
- * securing low cost of production materials
- * collecting debts

(Paun & Albaum, 1993)

The seller's pricing strategies consist of three criteria, referred to as premium, going-rate, and discount pricing strategies (Paun & Albaum, 1993). The seller's pricing strategy refers to the price the seller is asking for the countertrade products. A premium being a price above market value. A going-rate price being the asking price that equals market value and a discount price that is conceptualized as the price below market value (Paun & Albaum, 1993).

The buyer's pricing strategy refers to the price that the buyer is willing to pay for the countertrade products. The buyer being in the opposing position would describe a premium as a price they are willing to pay over market value. The going-rate meaning the price the buyer is willing to pay equal to market value and the discount price is defined as below market price (Paun & Albaum, 1993).

Paun and Albaum (1993), made very important discoveries concerning pricing strategies and how they affect the countertrade equation. From the seller's perspective the ability to use the premium pricing strategy increases when the seller's marketing objective is to encourage profits, capitalize on strong bargaining power, assist the buyer in concealing a price cut, or signal a high quality product (Paun & Albaum, 1993). The going-rate or discount strategy may not increase profits because of the transaction costs that will be incurred (Paun & Albaum, 1993).

The seller will benefit using the going-rate strategy when the seller's marketing objective is to improve sales volume or market share, establish long term relationships with new trading partners, or secure government contracts (Paun & Albaum, 1993). In referring back to our discussion of counterpurchase and offset we can see that the choice of countertrading practice often can be affected by the marketing objective. In this case the seller may chose counterpurchase because they are dealing with long term contacts with a

foreign government.

Finally, the seller may want to consider a discount pricing strategy when their marketing objective is to gain entry into new or difficult markets, use production capacity more fully, generate customer goodwill, dispose of surplus, obsolete, or perishable products, or gain access to marketing networks and expertise (Paun & Albaum, 1993). A company looking to use the discount pricing strategy will often be dealing with countries that have weak currencies but a high potential for trading. It is the long term potential that the company is looking to capitalize on.

What about the buyer's perspective? If the buyer is interested in generating goodwill, acquiring badly needed products and technology, concealing a price cut, or securing access to critical sources of supply they will benefit from using a premium pricing strategy (Paun & Albaum, 1993).

The going-rate pricing strategy is beneficial when the buyer's marketing objective is to free blocked funds, make purchases without deteriorating the balance of trade, conserve hard currencies, reduce heavy debt burdens, bypass trade restrictions, or establish long term relationships with trading partners (Paun & Albaum, 1993). The going-rate strategy is important for companies to consider when the intent may be to exchange earnings for products simply to achieve the ability to extract those earnings from the host country of the subsidiary. Recall our in depth discussion of

barter, here we see that barter can be very beneficial.

Finally, the buyer will often try to capitalize on the discount pricing strategy when they want to circumvent an overvalued currency, secure low cost sources of production or raw materials, or collecting existing debts. Often this strategy is considered when the seller is offering goods that may be very expensive for the buyer if the products were valued in terms of the overvalued official exchange rate (Paun & Albaum, 1993).

The research that has been presented on pricing strategies is a crucial element to the countertrade equation. The following information on multinational organizations will enhance the understanding of how countertrade works. With an understanding of how the seller and buyer interpret pricing it will be important to discuss how industrial managers can develop strategies that are typically used when considering countertrade as an option for conducting business internationally.

The Corporate Perspective

How does a company implement international countertrade? According to Sam Okoroafo (1994), President of Sam Kelly Associates, Inc. an international marketing consulting firm, "a company must develop a strategy based on their firm's characteristics and motivations." To guide corporations Mr. Okoroafo has developed a six step strategic approach to implementing countertrade. To see how the following six steps

affect each other refer to figure 6 (Okoroafo, 1994).

The first step is to determine your firms motivations. In this stage Okoroafo lays out the following points. It will be important for a firm to realize that the success of the countertrade deal should be weighed on the motivations (see figure seven) that Okoroafo lays out not the amount of sales, rate of return, or market share (Okoroafo, 1994). These motivations are important to continued success in the countertrade deal. The firms motivations may vary depending on the type of countertrade contemplated. For example, Mirus and Yeung developed economic incentives for barter, buybacks, counterpurchase, and offset independently (Mirus & Yeung, 1986).

The second step is to analyze your partners motivations (see figure seven). It appears that motivations vary among developing and developed countries. Later we will address which countries need the use of countertrade and one will see that developed countries are as much in need of countertrade as undeveloped countries. Managers can systematically analyze a country's balance of payment statements, policy statements, and other sources to determine countries' economic goals and their ability to fulfil those goals without countertrade (Okoroafo, 1994).

The third step deals with an internal analysis. This analysis involves a systematic assessment of the firms characteristics. Factors such as experience in international

operations, negotiations and countertrade, firm size, product line, management attitudes and commitment are relevant to countertrade participation and success (Okoroafo, 1993).

The fourth step is to review the countries' countertrade policy. It is apparent that some countries have formal countertrade policies, whereas others do not. However, when countries do not have formal countertrade policies, it does not mean they do not participate in countertrade. A country's policy can be written or unwritten but if dealing with a country that has no formal policy it is important to clarify their motives and actions (Okoroafo, 1994).

According to Okoroafo (1988), the debt service ratios, commodity terms of trade, balance of trade, and foreign exchange reserves of developing countries could serve as predictors of imposed countertrade (Okoroafo, 1988). It is therefore critical for managers to understand the macroeconomic circumstances of countries and consequently predict their countertrade participation.

Furthermore, it is vitally important to look at the views, positions, and policies of home governments and international institutions that may hinder countertrade transactions. Currently, the position of the U.S. government is that countertrade is okay, as long as it conforms to U.S. trade and international obligations and does not compromise national security (Okoroafo, 1994). We will see later that although the U.S. government allows countertrade they have yet

to clarify their real position concerning the issue. The premier international trade body, the General Agreements on Tariffs and Trade dislikes the exclusionary nature of countertrade transactions but has not taken steps to curtail it. As industrial managers look into countertrade organizations they need not concern themselves with institutions because they have opted to "look the other way" when countertrade transactions are taking place (Barrett, 1992). It is true these institutions may not like it, but as long as no domestic or international laws are being violated companies should take full advantage of what countertrade has to offer.

According to Okoroafo (1994), the fifth step logically follows by analyzing countries' past countertrade practices. What should one look for in these past transactions? Specifically, one may want to examine the products used in past countertrade deals, countertrade types, and the different price ranges used. It is important to look at the type of products, because typically the products used are ones that do not meet the highest world standard (Okoroafo, 1993). Countertrade practices can vary from country to country. For example, Palia and Shenkar (1991), did an analysis of 80 countertrade transactions involving China and discovered preference for compensation agreement.

The final and most important step establishes the firms strategy. In doing this one must first decide on which

countertrade type to use. A perplexing problem for all managers, users and nonusers alike, is which form of countertrade to use. The situation poses two implications for managers in resolving this dilemma (Okoroafo, 1994). First, a manager can look at past research and use the most common forms of countertrade by analyzing and deciding which one fits their transaction. Another way to look at the situation is to realize that no real typology exists and managers could develop their own form of countertrade to fit the particular deal being negotiated (Pechter, 1992).

The next part of developing your firms strategy is to gain an understanding of your countertrade partners and intermediaries. Countertrade transactions can involve multiple parties that could be buyers, facilitators, or inhibitors. Appropriate strategies for negotiation can be developed by understanding the motives of various participants. Governments for instance could be a buyer, a facilitator, or an inhibitor (Okoroafo, 1994).

Managers have a considerable choice of countertrading intermediaries: specialized countertrading companies, switch traders, or barter merchants. It is important to recognize the different types of countertrade companies because often they are the difference between success and failure. In many cases these companies have already established a flow of goods from the country that is demanding countertrade (Gilbert, 1992). The best reason to use the trading companies is that they know

the business. If you had a problem with your air conditioner you would not call the plumber. The same is true in countertrade. For instance, when New York's Lexington hotel needed a new computer system, Mr. Lance Lundberg, President of ICON International Inc., purchased one for \$150,000 and in return received \$300,000 in room credits. This is a deal that may be worth more than money could buy (Lundberg, 1992).

In developing the firms strategy it is equally as important to look at the countertrade information system. When a manager is looking toward the future he or she needs to be aware of which countries have systematic ways of gathering pertinent information to countertrade transactions of the past and the one currently being processed. It is important to know what firms and or countries have goods to buy or sell. Once again it is important to monitor the motives and policies of countertrade partners. This information is best attained through the trading companies that have been discussed (Okoroafo,1994).

As it is always important when conducting international business to examine the culture. Often there are different negotiation styles that must be considered. It is widely known that in Eastern bloc countries the negotiations are often discussed in terms of cash and after the deal is on the table countertrade demands are introduced. It is known that the Japanese will not do business with a partner unless they know and trust you. Similarly, the Chinese art of negotiation

is characterized by "Guanxi"; relationships or connections can result in success or failure of countertrade deals (Okoroafo, 1994). Countertrade in certain regions of the world is important to the whole picture and will be discussed at length later (see Countertrade across the Globe).

As one continues to assess the firms strategy they must be aware of the marketing mix that is associated with the big picture. Countertraders need to consider the product, promotional, pricing, and distribution tactics that are necessary to support the countertrade deal. For instance, what level of product quality is acceptable to your firm? That decision has to be made in consideration of the markets potential and what type of products meet the needs and wants of the Western consumer (Okoroafo, 1994).

The last area of a firms strategy delves into functional strategies that exist with countertrading. Issues surrounding areas such as management, economics, and most important accounting. In the accounting arena two key issues are involved; the timing of the recognition of any key gain or loss on a given transaction and the valuation of property given up or received in the exchange. The resolution of both of these issues is typically based on judgement (Okoroafo, 1994). Okoroafo's concern for accounting is real and one that must take serious consideration by a firm contemplating countertrade.

Accounting for Countertrade

The insight of Edith Weiner's article "Business in The 21st Century" (1992), delves into the importance of accounting. "The increasing countertrade within and between all countries, including but not limited to barter is of vital importance. Tax and accounting systems will be greatly challenged by this method of business, which in the early 1990's already accounts for more than 20% of world commercial activity (Weiner, 1992)."

As the popularity of countertrade continues to grow, so does the accounting dilemma. Recognizing revenue associated with countertrade creates some complications. According to current GAAP (Generally Accepted Accounting Principals), profit should ordinarily be recognized at the time a sale in the ordinary course of business is effected. Accordingly, revenues should be recognized at the time a transaction is completed, with appropriate provision for uncollectible accounts (Elenbaas & Kreuze, 1992). A transaction is generally not considered a sale unless an exchange has taken place, a liquid asset has been received, and the earnings process is complete or virtually complete. Since countertrade represents both a sale and a purchase requirement integrated into one agreement, the sale really cannot be considered independent of the purchase (Elenbaas & Kreuze, 1992). This is particularly the reason the U.S. government has a problem recognizing countertrade.

The revenue recognition option appears appropriate for the company located in the soft currency country, but not for the corporation in the hard currency country. The soft currency received would be the functional currency and be considered a liquid asset. However, the currency may not be a liquid asset for the company in the hard currency country. If the revenue is not recognizable at the point of the original sale, does the completing of the purchasing requirement fulfill the revenue recognition criteria?

These problems obviously are ones that need to be discussed before entering into a countertrade deal but nevertheless they should not prevent or discourage one from seeking a deal in countertrade. It will be important in the future that a broad-based system for dealing with accounting and countertrade take place. The FASB should begin to specify whether the historical cost approach should underlie the accounting for countertrade or whether recent emphasis on market values is more appropriate. The fundamental question of whether countertrades are purchases, sales, or both needs to be addressed. At the minimum, disclosure of current practices should be required. We must have consistency in reporting and adequate disclosure guidelines so investors and creditors can assess the risks involved in these transactions (Bost & Yeakel, 1992).

Countertrade Across The Globe

Countertrade often is associated with less developed

countries but as we have seen this is not always the case. It is necessary now to look at several regions of the world and their approach to countertrade. One of the leading countertrade sectors of the world is Eastern Europe.

The Eastern perspective identifies three motives for conducting countertrade, economic; political; and developmental. First, economic motives to no one's surprise may be a way to by-pass hard currency shortages and debt crises (Neal & Pass, 1992). Moreover, countertrade may enable both western firms and eastern countries to predetermine the terms of trade by setting the implied value of goods, thus reducing foreign currency risk. Countertrade enables countries to concede, or even initiate, secret price cuts to stimulate exports during periods of flat demand without causing long term damage to world prices. Similarly, East European countries have imposed countertrade terms on western exporters who are burdened by excess capacity during recession in order to overcome western import barriers, such as anti-dumping restrictions (Neal & Pass, 1992).

Next, is the Eastern political viewpoint. Under the former tight control of trade and industry, countertrade was used to promote political ideals. The Foreign Trade Organizations (FTOs) which formerly administered countertrade and used their powers to deter low priority imports by imposing strict obligations on importers and to surmount western import barriers (Neal & Pass, 1992). It appears that

in countertrade's early life eastern European countries used countertrade along with the FTOs to gain access to consumer goods that were a necessity to survival. Today, it has developed into a viable form of global trading.

The last Eastern view examines a developmental motive. Eastern Europeans are linked with internal industrial development ambitions. Common incentives for demanding buy-back or offset terms are to enhance a country's technology stock, its infrastructure, labor skills, and employment levels (Neal & Pass, 1992). By allocating additional countertrading credits to exporters in favored industries, it is possible to stimulate the diversification of a nation's industrial base. Countertrade is also used to penetrate new markets by accessing the marketing channels of western firms, this allows the eastern countries to save on distribution (Weiner, 1991).

In the Western perspective, countertrade had become known as the "second best" alternative. Today however, experience breeds expertise, and many firms now operate special departments to manage their countertrade operations. Why use countertrade rather than an orthodox method of trade? The needs of inefficient Eastern marketers can be exploited by the Western exporter to enter and develop a new market (Neal & Pass, 1992). Countertrade may be more efficient than orthodox trading methods if access to a ready made customer reduces search and transaction costs, such as agents' and their

commission. It may avoid the bureaucratic delays in currency rationing by Eastern Europeans (Neal & Pass, 1992).

Neal & Pass (1992), in order to gain insight about countertrade, researched 100 exporters all from the Financial Times Tops in the UK. Results of their study although drawn from a small sample provides us with important facts for further dealings in countertrade. They found that evidence of increasing countertrade suggests that many Eastern European customers continue to expect western firms to deal in countertrade (Neal & Pass, 1992). Secondly, it was found that firms with increased countertrade tend to have rather greater involvement with strategic alliances, especially in joint ventures (Neal & Pass, 1992). This suggests that for these firms, countertrade may have been a way of obtaining a strategic foothold in Eastern Europe and now that the conditions are more liberal, there is a chance for more extensive and formal involvement. Last, firms that have reduced involvement with countertrade tend to have fewer strategic alliances which points to only opportunistic and perhaps reluctant involvement in countertrade particularly in Eastern Europe (Neal & Pass, 1992). In support of Neal and Pass (1992), Gurprit Kindra, Frederick Stapenhurst, and Nicolino Strizzi (1993), conclude their study by confirming countertrade as an important tool for international business. They claim that poor economic prospects, scarce foreign exchange, external debt settle difficulties and persistent

current account deficits will likely cause East European countries to revert to using countertrade. Their use of countertrade is necessary in order to acquire Western plant, equipment, and advanced technologies and other vital imports needed to bolster productive capacities and restore growth potentials in the years ahead (Gurprit, Stapenhurst, & Strizzi, 1993).

As Eastern Europe is highly involved with countertrade, it is important that we include a discussion about Russia's involvement? What are the business opportunities like there? More importantly is countertrade a possible unsung hero to this starving region of the world?

U.S. firms in an attempt to conduct business with Russia realize that their unstable banking system and shortage of financing is a severe road block. In November of 1992 the Financial Services and Countertrade Division of the U.S. Department of Commerce sponsored a countertrade seminar in Washington D.C. (Ring, 1993). The invitation was extended to all those who had a strong impact in the area of countertrade. The government as well as industry tried to gain insight into the business opportunities in Russia. Special guests included Feodor Takhtamanov and Vladimir Chibirev, Russian trade representatives in the United States (Ring, 1993).

Their meeting was successful in that they initiated a report to the president of the United States and Congress on the feasibility of using reciprocally linked financially self-

liquidating arrangements. The arrangements include barter and counterpurchase, to foster imports of oil, minerals, and other commodities from the CIS (Commonwealth of Independent States) and Russia in exchange for U.S. exports, inclusive of food (Ring, 1993).

The importance of trade to The former Soviet Union benefits the U.S. as well as the CIS. The U.S. will benefit by their ability to sell our products to Russia where we once had no chance of breaking into this market. As for the Russian's they will continue to strengthen and eventually contribute monetarily to the world economy. It should not be forgotten that the former Soviet Union makes up over 265 million people. This region of the world can be prosperous if the U.S. and other countries can continue to conduct business there. One method to accomplish this is through countertrade.

East European countries are often the center of attention when dealing with countertrade but many other countries are heavily involved. In this analysis let us briefly examine reasons for Australia, Japan, and Korea to be involved in countertrade. In doing this one will see more clearly that there are several different reasons for countries to utilize countertrade.

First, Australia is an example of a country that has instituted government mandated countertrade (GMC). The reason for their involvement with countertrade stems from Australia's Australian Civil Offsets Program (ACOP) and the Australian

Defense Offsets Program (ADOP). In its current objective the ACOP is to contribute to the enhancement of Australia's industrial and technological development by establishing internationally competitive activities within Australia (Liesch, 1994). The ADOP seeks to enhance self-reliance in supply and support of the Defense Forces: to establish new or exercise existing industry capabilities of importance to defense; and to develop capabilities in industry that will enhance international competitiveness. The Australian government hopes this will ensure an increased involvement in future defense procurement programs and for further gains in self-reliance (Liesch, 1994).

As witnessed Australia has very different reasons for their involvement in countertrade. What do the Japanese want from countertrade? The Japanese use of countertrade is not widely known. Japan's Ministry of International Trade and Industry (MITI), does not want to be perceived as supporting countertrade activities (Palia, 1993). The importance of the Japanese form of countertrade is that international managers have to use it to do business in Japan. Since it is kept fairly quiet by the Japanese government it is, in fact, in the minds of Japan's business district while the government looks the other way. In this paper it was shown that often countertrade is conducted because of a lack of hard currency but in Japan it is being used as tool to create better deals allowing Japan to break into new and difficult markets. Here

again an alternative reason for using countertrade exists.

Palia And Yoon (1994), have examined Korea's position on international countertrade. Korea originally began countertrade deals with themselves by trading from the north to the south. North Korean raw materials and commodities such as coal and fish products have been bartered for South Korean consumer goods (Palia & Yoon, 1994). Recall our discussion of Plank, Reid, and Bates (1994), study of domestic barter in the U.S. and how important corporate barter can be as a tool of domestic business (Plank, Reid, & Bates, 1994). Today, South Korea in order to expand and penetrate external markets is not limited to North Korea. Faced with growing protectionism in developed countries, the South Korean government has actively pursued a product and market diversification strategy. As Korean firms pursue this diversification strategy and seek entry into new markets they encounter countertrade demands (Palia & Yoon, 1994). The South Korean government decided to actively implement countertrade based on the recommendation of the Ministry of Commerce and Industry. The fear was that Eastern Bloc countries such as the Soviet Union, East Germany, Hungary, Poland, Yugoslavia, Romania, and Czechoslovakia were viable trade partners but difficult to trade with based on there unstable currencies. As the South Korean government does not recognize countertrade as the best solution but possibly the only solution. South Korea's new policy was a shift from

prohibition to liberalization in economic relationships between Eastern Bloc countries and Korea (Palia & Yoon, 1994). Korea, like many other countries was faced with a challenge of gaining a competitive edge and found that if they avoided countertrade they may be losing their footing in the global market place.

Conclusion

In this examination of international countertrade one has been informed of what countertrade is, how it is used by corporations and countries alike. In coming to the concluding arguments it is important that we look at the United States government and their position on countertrade or lack there of it.

When the rest of the world was using countertrade as a viable option to no trade at all, the U.S. was avoiding the issue at all costs. Countertrade was virtually invisible until the Omnibus Trade and Competitiveness Act of 1988. In 1988 this act mandated that the Commerce Department consider this aspect of U.S. policy and set up an office of barter (Gilbert, 1992).

For Pompiliu Verzariu, a senior countertrade official at the Commerce Department, the central issue is what role the government should take, "Traditionally, the government has kept its hands off the private sector and has opposed countertrade and other distortions of free trade practices mandated by foreign governments (Gilbert, 1992)."

The dilemma arose when the issue of countertrade for military exports came to the surface. As it was not the first or last mention of countertrade the U.S. government waffled on the issue. President Bush ordered,

"that no government agency encourage, enter into, or commit U.S. firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments and that U.S. funds not be used to finance offsets. But the decision of whether to engage in offsets and the responsibility for negotiating and implementing offset arrangements remains with the companies involved."

(Gilbert, 1992).

As the government has been forced to answer questions concerning issues of countertrade, U.S. Trade Representatives, have never mentioned countertrade in any speeches, but if you contact their office they will give you a list of opportunities and contacts abroad in response to inquiries (Gilbert, 1992).

Howard L. Hills, a vice-president of the Overseas Private Investment Corporation claims that there are many U.S. officials who do not like countertrade and want nothing to do with it. Hills claims, "countertrade is within OPIC's mandate, and we are ready to evaluate whether the guarantees and risk insurance of the agency can be adapted to countertrade (Gilbert, 1992)." OPIC, an agency of the

executive branch, provides loan guarantees and insurance up to certain levels for private U.S. companies investing abroad.

In a recent discussion with a representative of the Department of Commerce it was discovered that countertrade's only visible advocates in congress were Dan Rostenkowski who lost his seat in the recent congressional election and Senator James Exon who is coming to the end of his career. Together the two managed to establish an Office of Barter within the Department of Commerce. In an attempt to continue this push for countertrade Exon has managed to establish a Finance and Countertrade Division. This division has compiled a list of trading companies and countertrade agents and is now creating a data base to track and monitor countertrade transactions (Department of Commerce, 1995). Exon, persisting in this fight recently said to a senate committee, "new strategies must be devised for doing business in the third world, Eastern Europe, and the Former Soviet Union. Countertrade and other nontraditional means of finance provide the keys to unlock these markets, which are hungry for American products (Department of Commerce, 1995)."

John Yeakle (1992), asks the question, "are we ignoring countertrade?" The answer Mr. Yeakle, is yes and no. The U.S. appears to be avoiding not ignoring countertrade but the world continues to use it to its fullest capabilities. In the introduction it was said that countertrade will prove to be the alternative to not trading at all and more importantly the

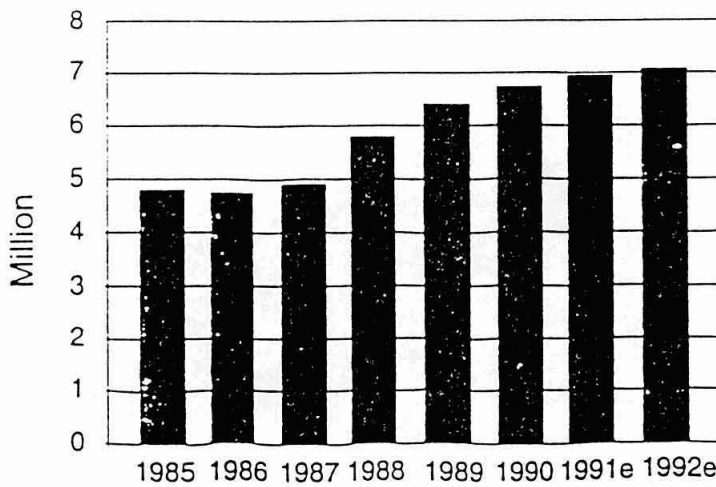
world market cannot survive without it. In this in depth examination of countertrade it is those very statements that still need to be considered important to the U.S. government. Countertrade is definitely a viable option for conducting international business. It possibly began as a temporary solution to problems that are now long term in nature. In that temporary solution it appears that some companies and countries are finding that countertrade is not so temporary and an important tool in international trade. It will be necessary that the U.S. government deal with this very issue now in order for U.S. corporations to come out on top. In closing let us recall Benjamin Franklin's words of inspiration, "no country was ever ruined by trade (Carruth & Ehrilich, 1988)."

Figure 1



Figure 2

U.S. Jobs Related to Merchandise Exports



Source: U.S. Department of Commerce, U.S. Trade Representative's Office

Figure 3

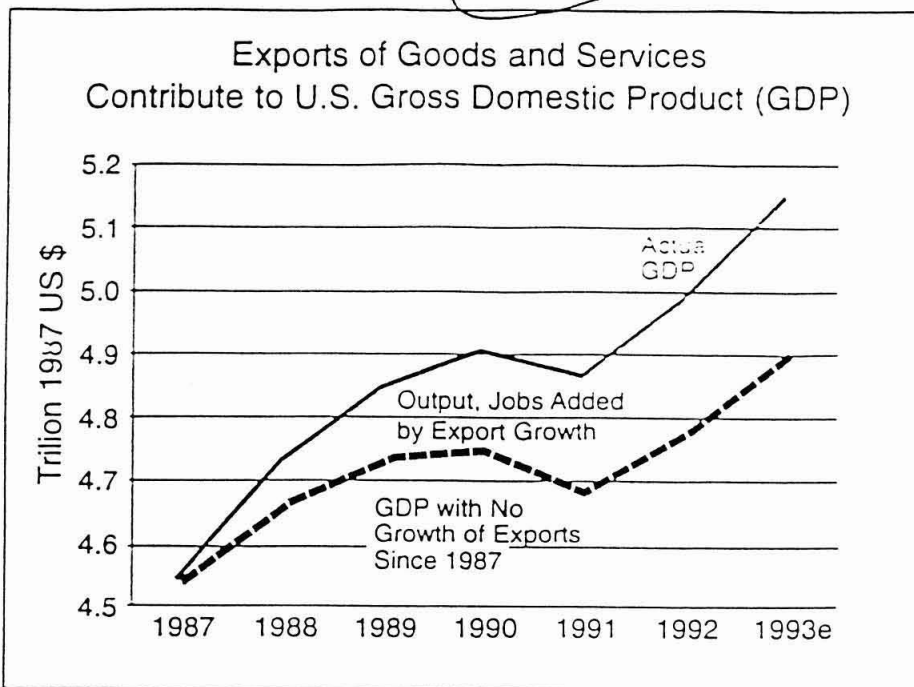


Figure 4

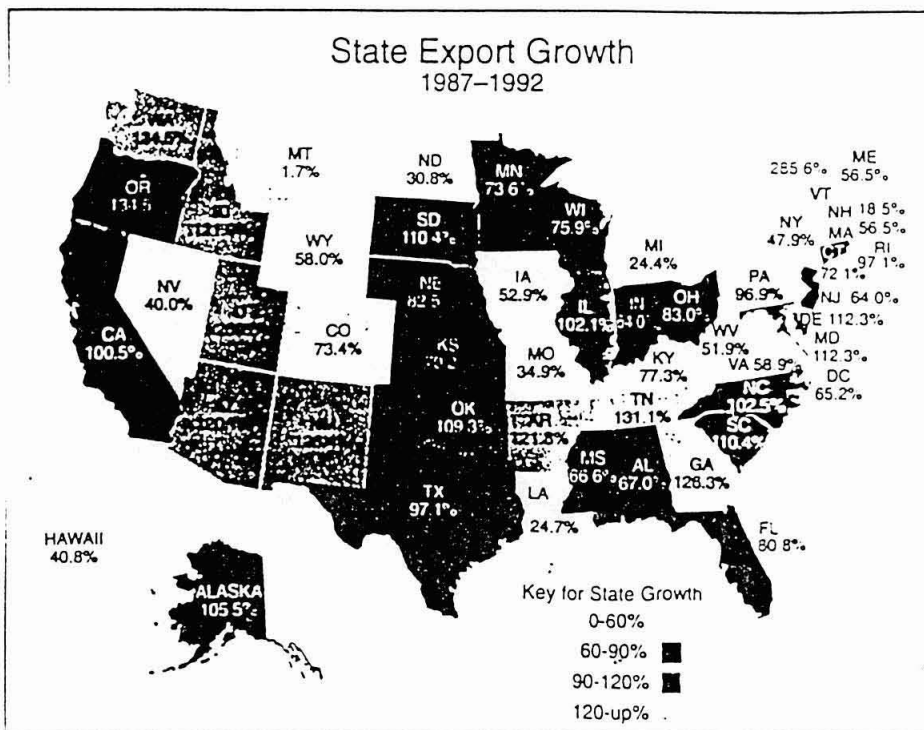


Figure 5

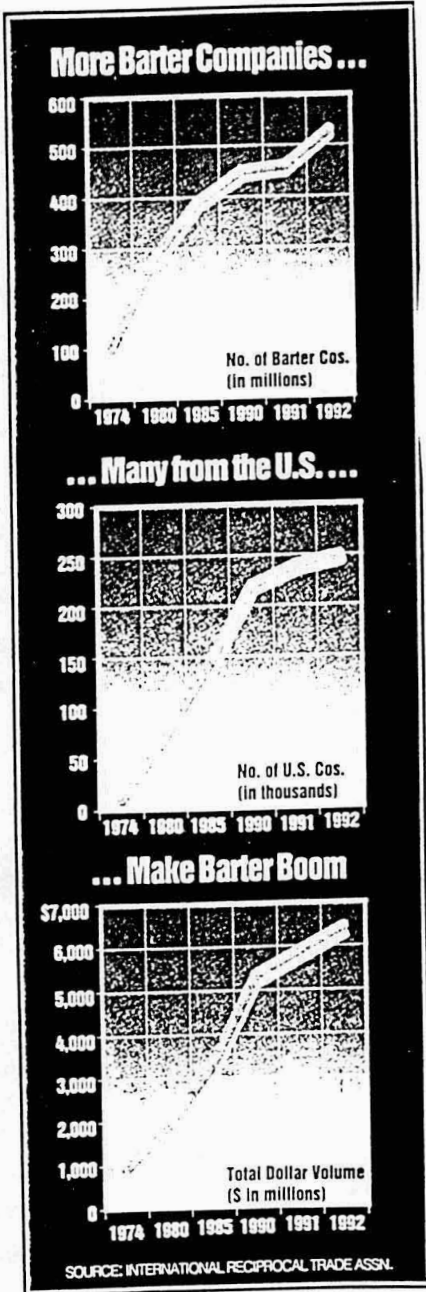


Figure 6

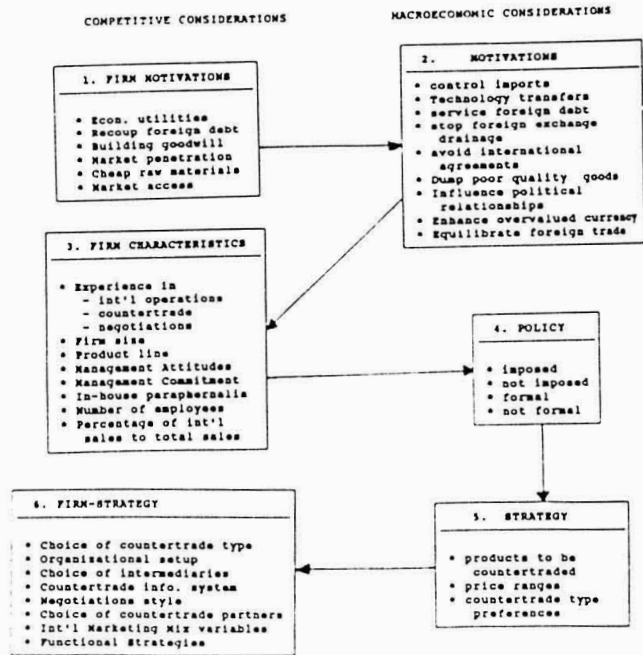


Figure 7

Your Firms Motivations

- * Build goodwill with foreign partners
- * market penetration
- * Discovery of low cost sources of production and materials
- * Maintain market presence
- * Recoup foreign debt
- * Gain competitive advantage
- * Release blocked funds
- * Get rid of surplus production

Your Partner's Motivations

- * Reduce foreign debt
- * Conserve foreign exchange
- * Circumvent international agreements
- * Unload poor quality goods
- * Support overvalued currency
- * Stabilize foreign trade

References

Abdel-Latif, Abla; Nugent, Jeffrey. "Countertrade as Trade Creation and Trade Diversion." Contemporary Economic Policy, 12 (January 1994): pp. 1-11.

The authors present a very detailed explanation of countertrade and the different forms of countertrade. Particularly useful to this paper was the discussion of developed and undeveloped countries and how they both affect countertrade in different ways.

Amann, Erwin; Marin, Dalia. "Risk-Sharing in International Trade: An Analysis of Countertrade." The Journal of Industrial Economics, 25, no. 1 (March 1994): pp. 63-77.

These researchers developed a detailed statistical analysis of countertrade. Here it was important the differences among the forms of countertrade. This study was used only to support the position of other researches that were used at length.

Angelidis, John. "Offset Trade and Counterpurchase: An Examination of Problems and Benefits." International Journal of Management, 10, no. 2 (June 1993): pp. 139-145.

Angelidis studied two particular forms of countertrade, offset and counterpurchase. On the surface they appear very similar but upon researching further it was found that they are quite different, in fact often if you use the wrong form it can be bad business. In reading this article a comparison was done and this comparison exemplified the importance of examining the different forms of countertrade. If one were to discuss countertrade as one form they would be passing on misleading information.

Anonymous. "A Conversation with a Representative of The United States Department of Commerce," telephone interview by author, February 15, 1995, Washington D.C.

The U.S. representative returned my call and wished that their name not be disclosed. Reasons that can be due to the controversial nature of this topic. Although this is true the information received was interesting in that countertrade was being pushed by Senator Exon and former Congressman Dan Rostenkowski but both are soon to leave Washington. Their efforts are thus far great in that they have forced congress to develop a barter organization.

Anonymous. "The Billion Dollar Swop Shop". Management Today, (April, 1994): pp. 52-54.

This article was particularly good in giving a practical description of how barter works. Here it was learned that barter often is the most important but can often be used incorrectly if trading companies are not consulted.

Anonymous. "Worlds First Regional Countertrade Association Set Up." International Trade Finance, 198 (Oct. 22, 1993): pp. 9-10.

This article was used briefly to establish that countertrade is responsible and has a check and balance system to monitor their activities.

Barrett, Gene. "How Two World Congress Speakers Look at Their Companies' Global Role." Journal of Accountancy, (May, 1992): pp. 93-94.

This article allowed one to see that one of the important tools of the future is countertrade. The article looked at several global ideas for the future but of particular interest to this paper countertrade was examined.

Bost, Patricia; Yeakel, John. "Are We Ignoring Countertrade"? Management Accounting, 74, no. 6 (Dec. 1992): pp. 43-47.

As countertrade has been tackled from several areas it was important to look at the aspect of accounting. In all of my research I found little negativity about countertrade until I came upon "accounting for countertrade." This part of countertrade could be an interesting thesis for a student earning a master's in accounting.

Carruth, Gorton; Ehrlich, Eugene. The Harper Book of American Quotations. New York, New York, : Harper Row, p. 63, 1988.

A book of quotations.

Caves, Richard; Marin, Dalia. "Countertrade Transaction: Theory and Evidence". Economic Journal, 102, no. 414 (Sep. 1992): pp. 1171-1183.

This article gave detailed research in countertrade and was useful as a support of other research used. In this research it was demonstrated that countertrade is

beneficial but limitations do exist.

DeMarines, R.J. "Analysis of Recent Trends in U.S. Countertrade." U.S. International Trade Commission, Washington, D.C., 1982.

Although this article is not recent, it identifies that countertrade is not a new form of trade but one that in recent developments has come to the front lines and gained some attention.

Elenbaas, John; Kreuze, Jerry. "International Countertrade: Is it a Sale Yet". CPA Journal, 62, no. 7 (July 1992): pp. 66-67.

This research helped identify important areas of the accounting equation. It helped support the notion that their government must identify a way to account for countertrade. A discussion of standardization for "accounting for countertrade" was tackled.

Forker, Laura. "Purchasing's Views on Countertrade". International Journal of Purchasing & Materials Management, 28, no. 2 (Spring 1992): pp. 10-19.

This article outlined the importance of the buyer's and seller's point of view on countertrade. As identified in the paper it is vitally important for corporations to understand the objectives and strategies of both the buyer and seller. After and only after this discussion can one fully realize and recognize how countertrade can benefit their organization. But as many of the researchers have discussed, it is important that you identify different motivations for both parties and if one fails to do this they may find countertrade to be a difficult form of trade.

Fluck, Brian. "How to Stay in The Money, Internationally." Financial Executive, (May/June, 1994): pp. 16-22.

This article covered a broad area, but was good in that it demonstrated that countertrade is a viable form of trading for the future.

Gilbert, Nathaniel. "The Case for Countertrade". Across the Board, 29, no. 5 (May 1992): pp. 43-45.

Gilbert identified the U.S. governments role in the picture. It was informative an allowed one to see that the U.S. government is moving but they are moving slowly. It appears that they are unsure in their position but

realize that often it is the only way to do business and look the other direction. They probably realize that countertrade does benefit many countries and companies alike but that countertrade is hard to account for.

Jain, Subhash. (1990). "International Marketing Management". Belmont, California: Wadsworth Publishing, pp.418-430.

A text book that gave more details of specific nature on the issue of countertrade.

Kindra, Gurprit; Stapenhurst, Fredrick; Strizzi, Nicolino. "A Survey of Countertrade Practices with Eastern Europe". International Marketing Review, 10, no.6 (1993): pp. 61-76).

This research helped to identify how Eastern European countries are dealing with countertrade. The authors were very good at demonstrating the need for countertrade as well as how East Europeans deal with countertrade.

Liesch, Peter. "Government Mandated Countertrade in Australia". Industrial Marketing Management, 23, (1994): pp. 299-305.

Here it was shown that alternative reasons exist for countertrade's use. By identifying different perspectives one can see the many uses for countertrade.

Lundberg, L. "Barter Meister". Forbes, 149, (January 20, 1992): p. 119.

Lundberg was cited in order to validate the work of Sam Okoroafo and demonstrated that countertrade must not be ignored.

Madura, Jeff. (1992). "International Financial Management": New York, New York: West Publishing, pp. 383-388.

A text book that helped clarify additional perspectives of the forms of countertrade.

Miller, Cyndee. "Worldwide Money Crunch Fuels More International Barter". Marketing News, (1994), p.5.

Miller helps one to see the practical implications of countertrade and the importance of different trading companies. One may want to retain countertrading companies in order to ensure the best results of a countertrade deal.

Mirus, R; Yeung, B. "Economic Incentives For Countertrade". Journal of International Business Studies, 17, (1986): pp. 27-39.

Mirus helped identify economic variables of countertrade and how this affects the ways corporations must look at countertrade. Also in this article one can closely analyze how countertrade can be affected by outside variables.

Neal, Bill; Pass, Chris. "Dealing With Eastern Europe: Countertrade and Strategic Alliances". Management Accounting, (1992): pp. 46-49.

In this particular work one thing became commonly known, and this was that countertrade was becoming a tool for international business not a defense mechanism like in the past.

Okoroafo, Sam. "An Integration of Countertrade Research and Practice". Journal of Global Marketing, 6, no. 4 (1993): pp. 113-127.

Of all the researchers Sam Okoroafo has done the most extensive research. In this article he identifies a model demonstrate countertrade and deal with it on a performance level.

Okoroafo, Sam. " An Application of Bagozzi's Exchange Model to Integration of Countertrade Research". International Marketing Review, 9, no. 4 (1992): pp. 46-56.

Here Okoroafo uses a Bagozzi's exchange model to support his own theory that countertrade can be beneficial and in fact has proven to be a profitable form of trade.

Okoroafo, Sam. "International Countertrade at the Crossroads". Management Decision, 30, no. 5 (1992): 47-49.

Here Okoroafo tackles criticisms of countertrade and develops some strategies for its future.

Okoroafo, Sam. "Implementing International Countertrade: A Dyadic Approach." Industrial Marketing Management, 23, (1994): pp. 229-234.

This article was Okoroafo's best in my view. Here he has set forth a series of steps for corporations to follow. In following these different steps one will see that countertrade can be conducted very easily but will

take time, money, and patience. Most importantly it will be difficult if done without professional trading companies.

Palia, Aspy. "Countertrade Practices in Japan". Industrial Marketing Management, 22, (1993): pp. 125-132.

This article was good in that it demonstrated how some countries are using countertrade to increase their level of importance on the world market. The Japanese are indeed intelligent people. One can see the Asian cultures are very much the same in respect to using countertrade as a tool to better themselves.

Palia, Aspy; Shenkar, O. "Countertrade Practices in China". Industrial Marketing Management, 20, (1991): pp. 57-65.

This article supports the idea of how the Japanese approach countertrade with more similarities than differences.

Palia, Aspy; Yoon, Heon. "Countertrade Practices in Korea". Industrial Marketing Management, 23, (1994): pp. 205-213.

Again one can see how the Asian culture views countertrade. This article also helped identify different forms of countertrade. It was a very well written article that a lay person could very easily understand.

Paun, Dorothy; Albaum, Gerald. "A Conceptual Model of Seller and Buyer's Pricing". Journal of Global Marketing, 7, no. 2 (1993): pp. 75-95.

Here Paun and Albaum support Laura Forker's research of purchasing view's of countertrade but take it a step further and detail how it actually works. This article was very helpful in dealing with the way a buyer and seller use countertrade. If one were interested in conducting countertrade and has studied Okoroafo's six step process they may utilize this article to guide them in the write direction.

Pechter, Kerry. "Who Needs Banks"? International Business, 5, no. 9 (Sep. 1992): pp. 48-54.

Briefly this article shows that banks are often being exclude from the international business transaction.

Plank, Richard; Reid, David; Bates, Frank. "Barter: An Alternative to Traditional Methods of Purchasing". International Journal of Purchasing and Materials Management, (Spring, 1994): pp. 52-57.

This research validates Paun and Albaum's ideas on purchasing and countertrade. It was not used in depth because it was similar to other research but not as detailed. Indeed it supports the notion that others give on purchasing views.

Resnick, Rosalind. "Barter Boom: How to Trade With Eastern Europe". International Business, (October, 1993): pp. 19-22.

Here one is given another way to look at the barter equation. This work was used to show an element of how quickly barter catches the eye's of corporations and their board of directors.

Ring, Mary. "Countertrade Business Opportunities in Russia". Business America, (January 11, 1993): pp. 15-16.

Mary Ring who works in Washington allows us an inside view of the opportunities in Russia and gives the point of view that Washington needs to be more involved with countertrade.

United States Department of Commerce. "Uruguay Round: Jobs for the United States, Growth for the World." Office of Bob Graham, Tallahassee, Florida. (1993).

Bob Graham's office sent this information which helped to identify the current position on trade. It was used in the introduction to show that the current trade agreements fail to recognize countertrade.

Verzariu, Pompiliu. "Trends and Developments in International Countertrade". Business America, 113, no. 22 (Nov. 1992): PP. 2-6.

This article looks at how the government has dealt with countertrade. It demonstrates that their involvement is little to none.

Weiner, Edith. "Business in The 21st Century". Futurist, (March/April, 1992): pp. 13-17.

This article was used briefly to show that countertrade is an ingredient to the future of international trade.

Weiner, Edith; Closs, David. "Formulas for the Future".
World, 25, no. 3 (1991): pp. 2-4.

Weiner again refer's to countertrade but shows its importance in the accounting equation.

Welch, Lawrence; Luostarinen, Reijo. "Inward- Outward Connections in Internationalization". Journal of International Marketing, 1, no. 1 (1993): pp. 44-56.

The article was used primarily to support other research.

Lynn University

Countertrade: Can Multinational Corporations Afford To Ignore
Its Impact on the World Market?

MIM 665 Graduate Project in International Management

*OK
approved 6 Feb.
Please attach
to Res paper*

January 31, 1995

Peter J. Gallo

On December 15, 1993, 117 countries concluded a major agreement to reduce barriers blocking exports to world markets, to extend coverage and enhance disciplines on critical area's of trade, and to create a more fair, more comprehensive, more effective, and more enforceable set of world trade rules (U.S. Department of Commerce, 1993). This set of rules is now known as the Uruguay Round agreement.

The Uruguay Round furthers what the major economic powers of the world meant with the General Agreement on Tariffs and Trade (GATT). They recognized that high trade barriers hindered economic growth and development. The Uruguay Round Agreement has lead us to the development of the World Trade Organization (WTO) (U.S. Department of Commerce). This agreement will ultimately reduce foreign governments in the restriction of trade.

Having said this, I will ~~in this paper~~ examine countertrade by explaining what it is and how today more than ever it is important to the success of the world market. Countertrade delves into several pertinent issues in the global market. It involves a serious affect on the political agenda both at home and in the country one proposes to do business. Secondly, it will be important to look at how accounting firms will look at this problem. According to John Flaherty of PepsiCo, "We are earning a satisfactory return on our international barter operations. The important thing is that we are positioned in those countries for whatever the future may hold (Barrett, May 1992). From the explanation of

countertrade one will see that this form of trade makes up about 30% of all international trade dealings. With the increasing currency risk in several large regions of the world, top executives are putting their heads together to ensure their roles for the future.

In my discussion of countertrade it will be important to look at what regions of the world are in need of countertrade. As it may benefit companies that do not want to deal with currency exchange it will also have a great impact on the development of the world. For, example the Australian government has implemented countertrade because they are interested in becoming more competitive on the world market. In order for the Australians to become more competitive they will need countertrade to improve their macroeconomic performance. As I will explain this in further detail along with the many other developing nations.

or already being.

In my conclusion I will look at what the United States government has to say about countertrade and also examine how marketing plays a role in the countertrade process. After having a fundamental understanding of countertrade businesses can improve their standing in the international market. It is my intention for the reader to believe about countertrade what Benjamin Franklin believed about trade, "No nation was ever ruined by trade (Carruth, 1988)."

OK

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