STATEMENT

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It is well known that the twenty-four member nations of the Organization for Economic Cooperation and Development (the “OECD”) meet regularly to analyze and discuss current problems of trade policy. The Organization’s recent concern with countertrade was prompted by reports that countertrade demands by Eastern countries had steadily increased in the late 1970s and that the conditions requested were becoming more onerous. In 1979, the Secretariat was asked to produce an initial assessment of the general situation. This was followed by a 1980 case study on the buyback of chemical products linked to the sale of chemical plants to various Eastern countries. In 1981, the Secretariat’s general survey was updated and issued as an official OECD publication in November, 1981.

The objective of the Secretariat’s study was to shed light on a subject that had been surrounded by a good deal of confusion, ignorance, and a priori opinions. The key problem has been semantic. There are numerous forms of compensation trade and the vocabulary to describe them is quite imprecise. Different authors use the same words when referring to unrelated practices. Addressing this problem, the Secretariat’s study classified the various forms of countertrade.

Another problem addressed by the study was to determine the amount of countertrade in East-West trade. Was it as important as some people were assuming? Was it increasing at a rapid rate? Although the OECD concluded that countertrade clearly was increasing, it accounted at most for only 15–20% of the trade with the Eastern countries.

Finally, the study attempted to analyze the position of both Eastern and Western partners when faced with a request that exports be linked to imports.

The OECD publication was timed to coincide with a meeting at the Economic Commission for Europe, a U.N. body in Geneva. At this meeting, Eastern and Western government representatives met to discuss their views on countertrade. Unfortunately, the meeting ended in deadlock. Western countries, afraid of legitimizing the concept of countertrade, criticized it on the

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basis of general arguments. Eastern countries rejected these criticisms as unsubstantiated.

The outcome of the meeting should not have been surprising given the divergent views on countertrade. Eastern countries generally favor countertrade because it is compatible with the way they manage foreign trade. It fosters bilateral balancing of trade and insures Eastern countries against unforeseen events, such as market fluctuations. The main impetus for countertrade, however, is that Eastern goods are not competitive in the international market. There will continue to be pressure to link sales with purchases until the Eastern countries improve the variety, quality, and marketing of the goods they seek to export.

With respect to the Western countries, traders do not necessarily have the same point of view as their governments. On the one hand, exporters need to sell their goods and will accept whatever conditions their customers demand, or the international market imposes, as long as the deal remains profitable. Governments, on the other hand, must protect general interests and may feel that the short-term objectives of firms may not be advantageous in the long run for the national and international communities.

The OECD does not believe that it would be advantageous to replace the multilateral system, which has existed since World War II, with a bilateral system of trade. A bilateral system would lead to a much less efficient allocation of resources. The mechanisms of a compensation-based trading system would lack transparency and could result in discrimination and distortion because they would be subject neither to international rules, nor to multilateral supervision. A proliferation of countertrade deals could push Western governments to intervene more often in trade negotiations with Eastern countries in order to support their national firms.

Countertrade, which was restricted to the Eastern countries, has spread to the developing countries. Indonesia, for example, has introduced legislation which makes countertrade a requirement in certain circumstances. Additionally, there have been increased pressures to offer services in exchange for goods, instead of the traditional exchange of goods for goods.

In a difficult economic situation, characterized by prolonged recession and intensified international competition, it may appear unrealistic to defend free trade practices when they are so frequently violated. One must observe, however, that countertrade is unilaterally imposed by the Eastern countries and rarely reflects the preferences of Western firms. Although large multinational concerns are able to cope with it, countertrade can be quite burdensome on smaller companies which cannot afford to create specialized trading departments to dispose of the countertrade purchases, and they may be excluded from the market.

For these reasons, one should think carefully before legitimizing a trading system based on systematic compensation. One way to combat the most
troublesome effects of countertrade might be to set operating standards for countertrade through multilateral negotiations with the Eastern countries. Under this system, however, countertrade practices may obtain a kind of legitimacy and international trade would soon settle at the level acceptable to the weakest partner. The result would be a kind of reverse dynamism.