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Why countertrade is good for you

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KUALA LUMPUR will be the venue for yet another business conference late next month. This time, the spotlight will swivel - if only momentarily - to countertrade. It is an esoteric subject to most people, but its practitioners are positive that it is a facet of international trade that merits more attention.

This is why THC International Sdn Bhd, a Malaysian-Indonesian joint venture (see accompanying story), is organising the sixth annual conference of the Asia Pacific Countertrade Association (APCA). The main aim is to hack away at the ignorance and misconceptions that have inhibited local businessmen from viewing countertrade as a valid avenue for boosting exports.

Fostering a healthy awareness about countertrade is undoubtedly a herculean task. To begin with, it is one of those words that sound awfully familiar, yet few know what they precisely mean. It does not help that 'countertrade' is a broad term covering several types of transactions, some of which are irrelevant to most companies.

At the heart of countertrade is reciprocity, which explains why it is sometimes known as reciprocal or compensatory trade. In a 1997 article carried by the New Straits Times, New Zealand academic Dr V.A. Llanes describes countertrade as a 'sophisticated variant of the theme "I buy from you, you buy from me"'.

For something more official-sounding, try the US Commerce Department's definition: 'International countertrade is 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.'

In other words, countertrade binds an export to an import. Barter is a rudimentary form since it involves exchange of goods. In most other kinds of countertrade (see box), currency or more often, credit facilities are part of the equation.

In this region, most countertrade transactions appear to be counterpurchases. These are basically quid pro quo arrangements involving commodities and manufactured goods. Unlike barter, a counterpurchase almost always involves the banking system or third parties, and credit is usually extended to make the deal possible.

'Through countertrade, countries that normally find it hard to get credit will get it. In return, we're saying, "Don't give us money. Give us goods of an equivalent value." This changes payment risk into performance risk. That is, we worry about getting the goods instead of receiving payment,' explains THC International managing director Asghar Mehdi, who is also chairman of the KL conference, better known as APCA'99.

At the height of the Asian economic crisis, countertrade was vigorously pitched as the answer to the cash-crunch and currency volatility which were smothering the Southeast Asian countries' international trade.

In June last year, when the ringgit had declined alarmingly against the US dollar, Prime Minister Datuk Seri Dr Mahathir Mohamad said the Government was no longer concerned about the fluctuation because the country was more keen to carry out barter trade. He added, 'What we want to do is to get away from the (fluctuation) in the value of the ringgit and this can be done easily by conducting trade on a countertrade basis or through practical bartering.'

Threatened by a five-per cent contraction in trade in 1998, Singapore too showed a keen interest in countertrade. In August that year, the CEO of its Trade Development Board, Barry Desker, said, 'With regional markets lacking in hard currencies and with this trend likely to continue for the next few years, our trading companies must be prepared to add this new dimension of countertrade to their international trading skills or risk losing market share to others.'

However, these developments tend to portray countertrade as a last resort, something that has to be done when you have your back to the wall. Practitioners say this is merely half true. Singapore-based lawyer David Hew, who is APCA's founder and secretary-general, says countertrade is relevant both in good and bad times. The difference is, when the chips are down, the factors necessitating the use of countertrade become more relevant - even urgent and critical.

While it is true that countertrade surges amidst economic woes, there are signs that it is picking up momentum year after year. It is reportedly worth US\$500 billion (RM1,900 billion) a year, or 10 to 15 per cent of world trade.

The US government apparently believes that much of this growth is due to government-mandated countertrade, which it opposes. In a publication on countertrade, the US Commerce Department says, 'Today, countertrade is a reality in international commerce. Continuing pressures for countertrade are likely as a result of the decline in the disbursement of private loans and export credits to debt-ridden developing countries.'

If APCA is to fulfill its mission statement and successfully promote countertrade as 'a legitimate, fair and sound economic activity in the Asia Pacific region,' countertrade has to step away from the stigma of government intervention. Otherwise, there will be protests in the name of free enterprise.

Primary Industries Minister Datuk Seri Dr Lim Keng Yaik learnt this in June last year after he had announced that Malaysia and China were looking into using countertrade to boost bilateral trade. He had said there were prospects for countertrade of palm oil, timber, rubber and cocoa products from Malaysia in exchange for corn, rice and beef from China. The US Maize Board responded by pointing out that the proposal was against the principles of the World Trade Organisation (WTO). There was also criticism from foreign analysts and fund managers.

The obvious solution is to first drum up more enthusiasm for countertrade in the local private sector. The second half of the answer is far trickier. Government involvement should be reduced to avoid charges of meddling. Yet official presence has to be significant enough so that all parties to the deals are reasonably comfortable that they will each get what is contracted for.

THC International's Mehdi says government support is required to help manage, not carry, the risks. This entails reinforcing the country's trade financing structure and nudging the financial institutions into acquiring the relevant expertise.

Mehdi feels that the antipathy towards countertrade partially stems from self-interest and lack of understanding. 'Yes, (some cases of) countertrade can be counterproductive, but we're only going for situations where we add value. If we're going into non-traditional markets, we're creating trade where there was none. We're opening new markets and increasing imports. We're not looking to steal traditional export business.'

Because countertrade is often practised in dealings with non-traditional markets such as East African and South Asian countries, and the former communist nations, most businessmen stay away because they perceive these

markets as difficult. The fear is that one can lose his shirt if he ties up with the wrong people.

Mehdi argues that the answer is to simply do one's homework diligently.

'One of the things that amazes me about Malaysia is the lack of local companies that have ventured into Indonesia. Here is one of the world's top developing countries with a huge market at your doorstep and Malaysia doesn't seem to know it. Ask a Malaysian businessman why he's not aggressive about going to Indonesia and he'll probably say, "Susah sekali." (It's too tough.)

'Russia is difficult until you learn how to do business there. It's the same with Africa. For that matter, the US can be difficult too if you don't know how to do business there.'

He adds that the products best suited for countertrade are those in which Malaysia has a long-standing comparative advantage. Of course, the countries they are to go to must be chosen carefully. There ought to be warm political relations and a genuine potential for building strong bilateral trade. Because support from both governments is vital to establish trade ties and develop the markets, there must be sturdy political will.

'On the micro level, you have to be comfortable with the relevant institutions in the country. Ultimately, we're not talking about the whole world. Maybe only 10 countries or so are good candidates to do countertrade with.'

A major obstacle, though, is the lack of expertise. Mehdi can name just Petronas' Malaysian International Trading Corporation (MITCO) as the only other local company that actively seeks countertrade deals. He thinks there are others, but they are not talking about it.

In May, Padiberas Nasional Berhad (Bernas) joined the elite group when it signed memorandums of understanding with six Myanmar enterprises to forge alliances, particularly in the food industry. Bernas will provide expertise and facilities to its Myanmar counterparts in exchange for goods that the Malaysian consumer needs, especially rice, corn and onions. In the second phase, Bernas will form a pool of Malaysian exporters to countertrade with Myanmar.

'The expertise is not here,' says Mehdi. 'Banks don't have it and neither do Malaysian companies. It's a question of learning. They're interested but don't know how to do it. I think Malaysian banks should consider going out and hiring experts in international trade finance.' Come Oct 25, ACPA'99 is bound to pique people's curiosity, what with its longish but interesting theme, 'Countertrade, structured finance and offset as economic development tools'. What is left to be seen is whether it can convince the local business fraternity that it is a mistake to discount countertrade as an avenue to grow exports.