

# Internationalization & Export Management (IEM 6CFU)

## Pros and cons of Countertrade

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# Countertrade

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- Countertrade is an alternative means to structuring an international sale when conventional means of payment are complex or nonexistent. Thus, they are the trade of goods and services for other goods and services.
- This specific entry mode represents an alternative means of structuring an international sale when conventional means of payment are difficult, costly, or nonexistent.
- There are several typologies that can be used according the specific purpose. The simplest is the **barter**, others – more complexes, like the **offset-** may become a form of project finance instrument

# Historical evolution of Countertrade

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- Countertrade was common in the USSR in the 1960s when its currency was nonconvertible.
- Countertrade grew in the 1980s as many other nations did not have the foreign reserves required to make imports.
- Countertrade increased yet again during the Asian financial crisis in 1997, as many currencies became devalued and had severely limited buying power.
- One example of countertrade was when the USSR paid Coca-Cola in vodka. Poland did the same with Coca-Cola but paid in beer.

# Countertrade

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Why international partner would be part of this transaction?

## Main advantages:

- It represent a way to finance an export deal when other means are not available. Countertrade can be used to overcome the problem of soft currenty payments.
- A countertrade agreement may be required by the government of a country to which a firm is exporting goods or services.
- Can become a strategic marketing weapon. Indeed, sometimes it is used to enter into diffuct market and being friendly perceived.
- Countertrade contracts may involve the exchange of unusable or poor-quality goods that the firm cannot dispose of profitably. Thus, it is used with a logistic rationale.



Given these drawbacks, countertrade is most attractive to large, diverse multinational enterprises that can use their worldwide network of contacts to dispose of goods acquired in countertrading.

# Countertrade

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Why international partner wouldn't be part of this transaction?

## Disadvantages:

- If the market does represent a strategic goal for the companies, firms would normally prefer to be paid in hard currency.
- May involve the exchange of unusable or poor-quality goods that the firm cannot dispose of profitably. Thus, sometimes it is required a third party, such as trading companies, that have the expertise to sell goods used to pay.
- Countertrade is most attractive to large, diverse multinational enterprises that can use their worldwide network of contacts to dispose of goods acquired in countertrading.