Scope of Countertrade for India

Why in news?

Countertrade has the potential for India to secure critical raw materials, while supporting the borrower countries in infrastructure creation.

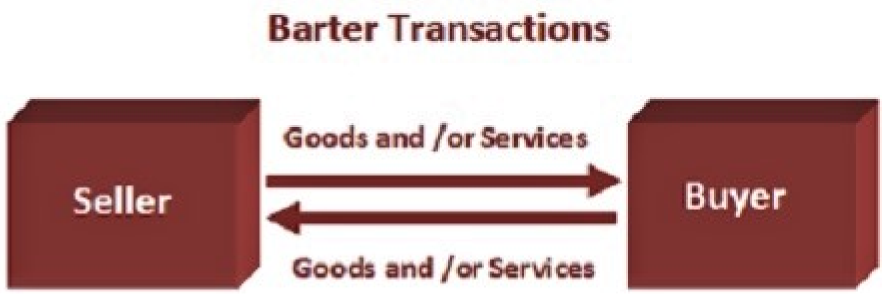
What is Countertrade?

- Countertrade is a reciprocal form of international trade in which goods or services are exchanged for other goods or services rather than for hard currency.
- It is a modernized form of barter system that explicitly links import and export transactions.
- It generally takes place when the countries are facing foreign exchange crisis.
- **Examples**- India has entered into a barter trade agreement with Iraq under the 'oil-for-food' programme.
- Iraq agreed to facilitate daily delivery of a fixed quantum of oil to India at a fixed price in exchange for exports of rice and wheat.
- A rail construction project was undertaken in Malaysia, for which the Malaysian government made payments through the supply of palm oil of equivalent value to India.
- India bought 200 sophisticated looms from the erstwhile Soviet Union in return for a buyback commitment by the Soviet Union to purchase 75% of the textile produced from the looms.
- A rupee payment mechanism was established between India and Iran in 2012 under which the rupee accumulated from payments for imports by India was utilised for payment for exports of products, projects and services to Iran.

What are the types of Countertrade?

- **Barter**- Barter is the direct exchange of goods and/or services between two parties without a cash transaction.
- **Counter purchase**- It is a reciprocal buying agreement as it involves simultaneous separate transactions between two parties.
- It occurs when a firm agrees to purchase a certain amount of materials back from a country to which a sale is made.
- **Offset**- The importer makes partial payment in hard currency, besides promising to source inputs from the importing country and also makes investment to facilitate production of such goods.
- **Switch or swap trading**- It is a trade practice in which one company sells to another its obligation to purchase something in a foreign country.
- **Compensation trade or buyback**- A Buyback occurs when a firm builds a plant or supplies technology, equipments, or other services to the country and agrees to accept

a certain percentage of the plant's future output as a partial payment for the contract.



What are the pros and cons of countertrade?

Pros

- Makes export more stable
- Helps the countries who are facing foreign exchange crisis
- Helps developing countries to increase their exports
- Allows disposal of declining products
- Facilitates conservation of currency of the importing country

Cons

- Normally prefer to be paid in hard currency
- Extended and complex negotiation processes
- Increased transaction costs
- Goods can be of poor quality, packed unattractively or difficult to sell
- Expensive and time consuming

What potential does countertrade hold for India?

> *According to the IMF, nearly 60% of the low-income countries are under debt distress or at the risk of debt distress.*

- Faced with scarce forex reserves, high inflation, rise in external debt burden and uncertainty over repayment capacity, low and middle income countries would have fewer resources for development.
- Amid such constraints, countertrade models would address the unmet financing needs.
- **RFI model**- Under resource-backed financing for infrastructure model, the borrowing country commits future revenues to be earned from exports of natural resources to pay for loans secured for infrastructure projects.
- Such a model can be adopted by India,
    - to promote mutually beneficial outcomes for both India and borrower countries
    - to finance infrastructure projects in developing countries under India's development partnership programmes
    - to help India secure supplies of critical raw materials for industrial processes
    - to help India secure these raw materials for its production processes

    - to help Indian companies expand the horizons of executing the infrastructure projects, as it can open opportunities in lesser explored geographies
- **G2G deals**- Countries are increasingly entering into government to government (G2G) deals for alleviating concerns over supply of important commodities.
- India may utilise its stockholding of wheat for countertrade with countries to secure supplies of essential commodities at mutually agreeable terms.
    - For example, countertrade for exports of wheat from India to Indonesia in exchange for uninterrupted supply.
- The RBI's recent circular on additional arrangement for invoicing, payment and settlement of trade in Indian rupee paves way for establishing clearing arrangements with countries such as Russia and Sri Lanka.

What are the challenges in the implementation?

- **Lack of policy**- There is no policy for countertrade in India, except in the case of defence imports.
- **Diplomatic issues**- Many overseas governments may be unwilling to accept countertrade for commodities of interest to India.
- **Resource-specific issues**- Commodities that the overseas government may be willing to trade may not have sufficient domestic demand.
- **Institutional issues**- G2G mechanism would depend critically on the strength and capability of public sector enterprises in borrower countries to engage in such transactions.

What is the way ahead?

- For designing a clear umbrella policy for countertrade, a task force may be set up with relevant stakeholders.
- Countertrade should be perceived as a mechanism to boost trade and investment and not as an aggressive measure to recover dues.
- To resolve resource-specific issues, switch trading may be explored.

References

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