



A Prospective Analysis of Countertrading

*This editorial is based on [“Countertrade can Work in Crisis Situations”](#) which was published in *The Hindu BusinessLine* on 26/04/2022. It talks about countertrade arrangements that India has with other countries and the need for a countertrade policy.*

For Prelims: Types of Countertrade Arrangements, Debt-for-Goods Arrangement, India's Countertrade Agreements with Other Countries, India EXIM Bank.

For Mains: Countertrade - Types, Significance, Disadvantages, Need for a Countertrade Policy, Imposition of Sanctions and Countertrading.

In view of the mounting pressure created by the [sanctions on Russia](#), which **disrupted both India's receipts and payments in dollar for its trade with Russia**, the Reserve Bank of India (RBI) is working together with its Russian counterpart for creating a **framework for sustaining bilateral trade and banking operations**, likely **through greater use of rupee** in international transactions.

India in the past too, has accepted and made payments in rupee for its trade with several countries including **Russia, Nepal, Iran, Bangladesh, and a few east European countries**.

Given the vulnerabilities of the existing trade and financial settlement mechanisms to the [sanctions imposed by the US](#), and the difficulties in trading with countries facing foreign exchange crises or balance of payments difficulties, there is a need to outline an **alternative framework for facilitating transactions with such countries**. **Countertrading** could be one such effective way.

What is Countertrading?

- Countertrade is basically a **barter or a quasi-barter arrangement** that explicitly links import and export transactions. It has emerged as an important mode of international transactions **for countries facing currency or cross-border payment challenges**.
- Countertrade is an alternative means to structuring an international sale when conventional means of payment are complex or nonexistent. The most common form of countertrade is **bartering**.

What is Its Significance?

- Countertrade presents an effective way of:
 - **Mitigating risks posed by protective trade policies** like sanctions, currency restrictions, non-tariff barriers, etc
 - Dealing with **challenges associated with outward remittances of foreign exchange**, where conventional means of payment is non-existent or complex for a variety of reasons
 - Tackling **challenges in securing supply of strategic mineral resources** where India

has significant import dependence.

What is India's Status on Countertrades?

- **Barter Trade Agreement with Iraq:** India has entered into several types of countertrade arrangements in the past, including a barter trade agreement with Iraq under the **'oil-for-food' programme** wherein **Iraq agreed to facilitate daily delivery of a fixed quantity of oil to India at a fixed price in exchange for exports of rice and wheat** from India.
- **Counter Purchase Agreement with Malaysia:** India also entered into a counter purchase agreement with Malaysia wherein a rail construction project was undertaken by **IRCON (Indian Railway Construction) International Ltd.** in Malaysia, for which the Malaysian government made payments to IRCON through the **supply of palm oil of equivalent value to India.**
- **Buyback Arrangement Soviet Union:** Another was a buyback arrangement with the erstwhile Soviet Union wherein the **National Textiles Corporation Ltd. (NTC) of India bought 200 sophisticated looms**, in return for a buyback commitment by the **Soviet Union to purchase 75% of the textile produced** from the looms.
- **Clearing Arrangement with Iran:** India also had a clearing arrangement with Iran wherein 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.**
- **Debt-for-Goods Arrangement with Vietnam:** There was also a debt-for-goods arrangement with Vietnam wherein **India Exim Bank extended a Commercial Line of Credit to Vietnam** and in return, the [Food Corporation of India](#) imported rice from Vietnam and paid to IDBI/India Exim Bank for the imports.

What is a Debt-for-Goods Arrangement?

- A debt-for-goods model is a countertrade transaction wherein a **country avails itself of funding for a development project**, and full or partial repayment of the debt is through **exchange of goods or services to the lender country.**
- For the **lender country**, **such a model can provide avenues for exports of high value-added goods** and services tied to the development financing, while also **helping secure the supply of key raw materials** through imports from the borrower country.
- For the **borrower country**, such a model **helps in financing critical infrastructure development, without depletion of scarce forex resources.**

What about a Countertrade Policy?

- In spite of several countertrade transactions over the years, there is **no definitive policy for countertrade in India.**
- Several countries like the **Philippines, Indonesia and China have comprehensive countertrade policies** that have helped secure imports of critical items even in the wake of growing uncertainties.
 - A type of countertrade, **debt-for-goods, has especially been used by China** for securing important raw materials and promoting value-added exports.

What Challenges are Associated with Countertrade?

- One of the main challenges with countertrade is that the goods identified for countertrade by partner countries **may not have sufficient demand in India.**
- The value of a deal—the goods being exchanged—may be uncertain, causing **significant price volatility.**
- Countertrading has a **time-consuming nature** as in any unconventional tactic. There will be haggling over the good trades, hence a **long, drawn-out negotiation until all parties are satisfied.**

- There will be **higher transaction costs** including brokerage. Costs can quickly add up, especially while looking for a buyer for the goods, commissions to middlemen, and more.
- **Logistical issues** are also likely to exist, especially if commodities are involved.
- Greater uncertainty on the value of the goods being traded and **uncertainty on the quality of the goods.**

What can be the Way Forward?

- **A Countertrade Policy:** In light of the heightened uncertainty and pronounced need for an alternative mechanism for trade, a framework for countertrade could be developed for India, **with provisions for a debt-for-goods model.**
 - **India Exim Bank's** recent study has identified **30 countries to start with**, where a countertrade mechanism under the debt-for-goods model would be prudent.
 - These are resource rich countries that face restrictions on outward remittances of foreign currency, or are under debt distress or facing high risk of debt distress.
 - The countries include; **Nigeria, Libya, Venezuela, Iran, Republic of Congo, Sudan, Yemen, Zambia, Tanzania, Mozambique, Belarus, Fiji, Nicaragua, Cuba, Syria, and Lebanon**, among others.
- **Addressing Money Matters:** The countertrade policy for India could be an **umbrella arrangement, including a mechanism for local currency trade**, but not limited to it.
 - The policy could have a multipronged vision ranging from **mitigating currency related risks** related to international trade, to **extending development finance assistance to** the needy developing countries without depleting their scarce forex reserves; and **augmenting exports to lesser explored geographies** having potential to trade with India but facing forex challenges.
 - Countertrade mechanism would also be worth **contemplating from the perspective of securing repayments** in the developmental partnership programmes of the government of India, typically in resource abundant countries.
- **Switch Trade Model:** There should also be provision for a switch trade model in India's countertrade policy.
- Under a switch trading model, an international trading house can be engaged to serve as an intermediary for offtake of the product and concomitant payment for settling the exports leg of the transaction.

Conclusion

The international [trading regime with the dollar](#) at the pivot has made trade settlements susceptible to actions by the US. India has taken a strong stand of safeguarding its economic interests, even amid the growing clout for suspending trade relations with certain countries. It must bolster its stand through a comprehensive mechanism for circumventing the challenges to trade settlements.

Drishti Mains Question

“Countertrading could be an alternative framework for facilitating transactions with such countries that are fiscally distressed or vulnerable to the imposition of sanctions by the US”. discuss.