

Counter trade

Business



An Analysis of Counter Trade Analysis of Counter Trade Countertrade refers to the exchange of goods or/and services with other goods or/and services, rather than with hard cash. The exchange may be done partly or wholly. Countertrade may also involve two countries exchanging goods for other goods without involving the payment of money. Countertrade are of different types, namely barter trade, compensation deals, counter purchase, offsets, buybacks and switch trade. The various types of countertrade are a means of managing the global financial operations (Contractor & Lorange, 2002).

Barter trade involves the direct exchange of goods with other goods without the use of hard cash or money as a means of payment. Switch trading as a countertrade assists global financial operations in instances where a company in a given state is short of obligations thereby hindering from making a purchase. Therefore, the company in need of the obligations would do a switch by buying the obligations from another company for it to be able to make a purchase as was observed by Contractor and Lorange (2002).

Countertrade is also applied as a global financial operation in the form of a counter purchase. Contractor and Lorange (2002) argue that a counter purchase assists in transferring goods and services from an organization in one country to another in a different country, that promises to make a future purchase of goods from the same company. This form of countertrade enables the company that does not have the products needed to get them from another company that has the same products. This helps the first company to assure its continuity and, therefore, to avoid closure.

Countertrade is one way in which technology can be exchanged between countries in the form of buybacks according to Contractor and Lorange (2002). A buyback also enables a company to acquire plants, equipments,

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and receive training easily through countertrade, thereby fostering growth in financial operations.

Countertrade is one of the best ways of managing risks. This is because a company that is in need of products and services but is short of hard currency may still manage to acquire products and services through countertrade. This eliminates the dangers that may face the company such as closure. Countertrade is also another way of managing currency risks such as those due to non-convertibility of and fluctuation in currency value. Since countertrade does not involve currency, the business is never affected by the fluctuation in currency or non-convertibility (Trent, 2007).

In conclusion, countertrade is one of the global financial operations that allow for the exchange of goods and services without the involvement of money. The fact that it does not involve money makes it one of the best ways of managing risks associated with exchange that involves hard cash.

References

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