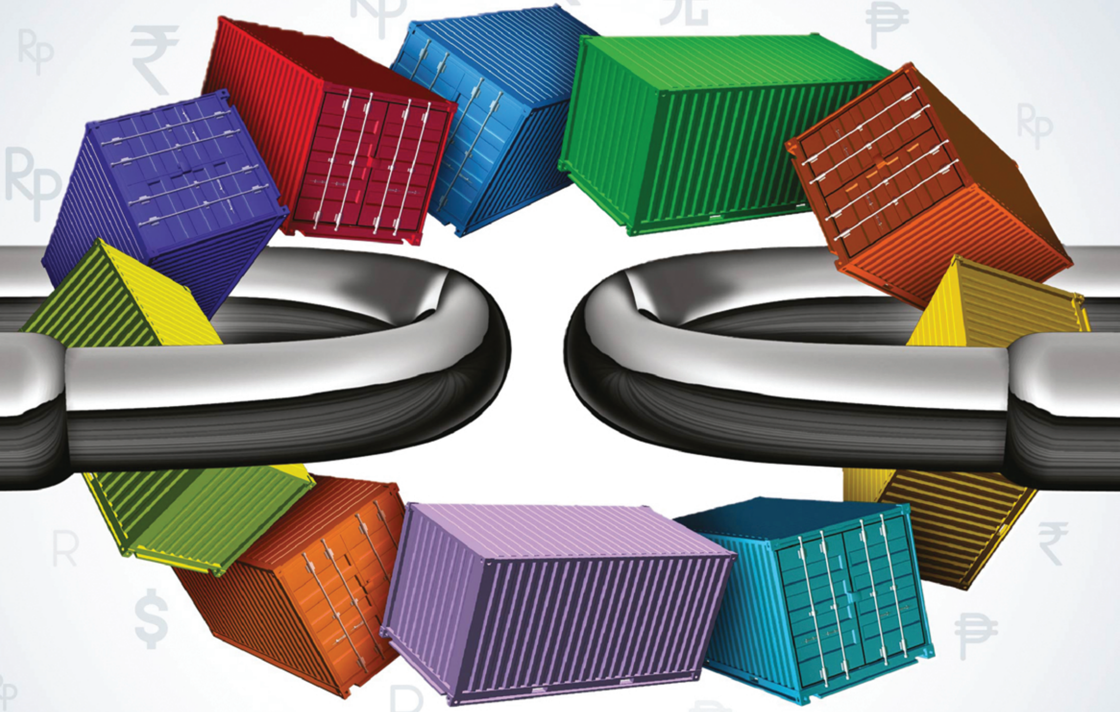

# Countertrade Strategy for India

## Strengthening Development Partnerships, Diversifying Exports & Achieving Resource Security

**EXPORT-IMPORT BANK OF INDIA**

# COUNTERTRADE STRATEGY FOR INDIA: STRENGTHENING DEVELOPMENT PARTNERSHIPS, DIVERSIFYING EXPORTS AND ACHIEVING RESOURCE SECURITY

*This study is an attempt to disseminate the findings of research studies carried out in the Bank. The results of research studies can interest exporters, policy makers, industrialists, export promotion agencies as well as researchers. However, views expressed do not necessarily reflect those of the Bank. While reasonable care has been taken to ensure authenticity of information and data, India Exim Bank accepts no responsibility for authenticity, accuracy or completeness of such items.*


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# Contents




**Project Team**

Ms. Jahanwi Singh, Chief Manager, Research and Analysis Group

Ms. Neha Raman, Deputy Manager, Research and Analysis Group

# List of Figures

# List of Tables

# Executive Summary

Countertrade is the exchange of goods and services in whole or part, with other goods and services as payment, rather than with money. It explicitly links import and export transactions. Countertrade has time and again emerged as an important mode of international transactions for countries facing currency or cross-border payment challenges. There are a number of distinct types of countertrade transactions, including barter, counterpurchase, offset, buyback (compensation), switch trading, clearing arrangement, and debt-for-goods.

The Study highlights the significance of countertrade amid rising vulnerabilities and fiscal strains faced by developing economies, particularly since the onset of the Covid-19 pandemic. Countertrade strategy can help sustain trade with countries facing foreign exchange crisis and balance of payments difficulties. Highlighting the susceptibility of the existing trade and financial settlement mechanisms to economic sanctions imposed by developed countries, the Study also underscores the salience of countertrade in maintaining trade ties with sanction hit countries.

The Study proposes countertrade as an alternative framework for facilitating trade and cross-border transactions in India, with the objective of (i) strengthening development financing assistance to partner developing countries, and ensuring sustained capacity to support developmental projects in these countries, especially during global downturns; (ii) tapping lesser explored geographies having potential to trade with India but facing challenges due to scarce forex reserves or challenges in making payments for the trade in foreign currency, and (iii) securing supply of strategic mineral resources where India has significant import dependence. The Study identifies potential products and target countries with which discussions for countertrade can be initiated. These are resource rich countries, or countries that face restrictions on outward remittances of foreign currency, or are under debt distress or facing high risk of debt distress.

Countertrade is not new for India, as the country has engaged in several types of countertrade arrangements in the past with countries like Iraq, Malaysia, erstwhile Soviet Union, Vietnam, Iran etc. However, despite 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. The policies in other developing countries and the modalities for countertrade in these countries are discussed in the Study.

The growing salience of countertrade in the Indian context is evident from some of the recent engagements of India with partner trading countries. India, for example, is considering government-to-government deal for a barter trade arrangement with Indonesia, for exports of wheat from India in exchange for palm oil from Indonesia, to ensure adequate supply of palm oil in India in the wake of rising global prices of palm oil. Besides, the recent economic sanctions on Russia as also mounting foreign exchange difficulties faced by partner countries like Sri Lanka, have also led the RBI to recently put in place an additional arrangement for invoicing, payment, and settlement of export/ import transactions in Indian Rupees, which would facilitate several types of countertrade transactions.

Rather than piecemeal initiatives that India has undertaken over the years for countertrade with partner countries, India could consider formulating a comprehensive policy for operationalisation of countertrade in India. Such a policy could be an umbrella arrangement, with appropriate mechanisms for different countertrade models. The Study discusses some of the key models such as debt-for-goods and debt-for-investments that could be included in the comprehensive policy. The Study also discusses some of the impediments for countertrade in general, as well as particularly for India. The Study recommends setting up a Task Force with representation from various departments of the Government, RBI, Commercial banks, and Development Financial Institutions such as the Export-Import Bank of India (India Exim Bank), and Public Sector Trading Companies for designing a roadmap to explore the possibilities for countertrade and recommending a comprehensive policy for India. The roadmap should also focus on creating an enabling environment for countertrade mechanisms that can be driven by non-governmental agencies and private enterprises. It should also consider the possibility of switch trading through participation of international private trading houses.

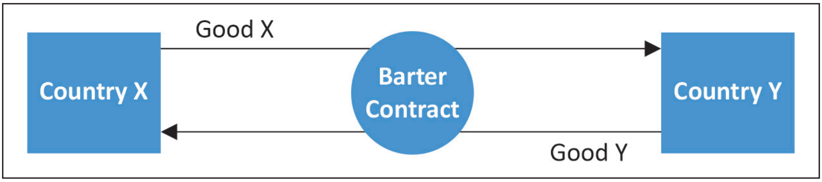
# 1 Countertrade Arrangements: An Introduction

Countertrade refers to the exchange of goods and services in whole or part, with other goods and services as payment, rather than with money. It has time and again emerged as an important mode of international transactions for countries facing currency or payment challenges. Countertrade may take a variety of forms, but basically it is a barter or a quasi-barter arrangement that more or less explicitly links import and export transactions. It involves trading arrangements between private firms and/or government entities, such as foreign trade organizations, by which the seller is obligated to accept, as a partial or total settlement for his exports of goods (or in some instances services, such as technology or industrial licenses), specified goods or services from the buyer. There are a number of distinct types of countertrade transactions, some of which are delineated in this chapter.

## 1.1 Barter

Barter is one of the oldest forms of trade, wherein the transaction is contained in a single contract and there is no exchange of money between the parties in a transaction. Sometimes a small amount is paid to cover special costs, or a down payment is made as a guarantee. These are usually short-term product exchanges, involving a limited number of products and without the participation of a third party.

*Figure 1: Graphical Representation of Barter Trade*



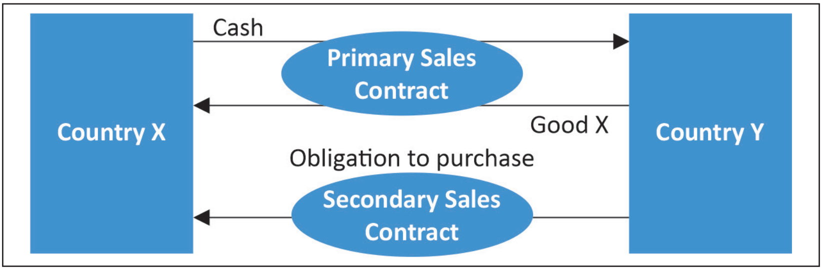

**Example of Barter Trade (India and Iraq: Oil-for-Food)**: In 2000, India and Iraq agreed on an "oil for wheat and rice" barter deal to facilitate daily delivery of 300,000 barrels of oil to India at a price of US$ 6.85 a barrel. Iraq's sales to Asia at that time were valued at about US$ 22 a barrel. In 2001, India agreed to swap 1.5 million tonnes of Iraqi crude oil under the oil-for-food program. Several Indian companies including Reliance Industries Ltd. and the State Trading Corporation of India (STC) were engaged in transactions under the program. The mechanism benefited several exporters of rice and wheat from India.

## 1.2 Counterpurchase

In a counterpurchase transaction, the first party agrees to sell goods to the second party, and under a separate but related agreement, the first party undertakes to purchase other, unrelated products of equal value from the second party. The two obligations should be viewed as distinct transactions with separate contracts and separate currency payments.

Under this arrangement, the exporting country under a primary sales contract, sells goods, technology, or services to the importing country, and agrees as part of a secondary sales contract, to purchase from the importing country within a specified period, which is normally 1-5 years, a specific value of goods. Under counterpurchase, the goods offered as part of the secondary sales contract are not directly produced by the technology being exported under the primary sales contract. The exporting country also may not use these goods themselves, and may undertake onward sales to a third party. The counterpurchase contract allows the exporter to assign its counterpurchase obligation to a third party, a trading house or another foreign buyer.

***Figure 2: Graphical Representation of Counterpurchase***




**Example of Counterpurchase (India and Malaysia):** As part of an MoU signed by the Government of Malaysia with IRCON International Ltd. in 2001, a rail construction project, valued at US$ 120 million, was undertaken by IRCON International Ltd. The Ministry of Transport, Government of Malaysia engaged IRCON for execution of the project. Payments to IRCON was through supply of palm oil of equivalent value. The Ministry of Primary Industries, Government of Malaysia appointed the Malaysian Palm Oil Board as managing agent for payments made to the Malaysian palm oil exporters for palm oil delivery to India. Payments were disbursed based on work progress defined under the works agreement. The Minerals and Metals Trading Corporation of India (MMTC) acted as the trade facilitator under the arrangement, and was the agency responsible for import of palm oil under the arrangement.

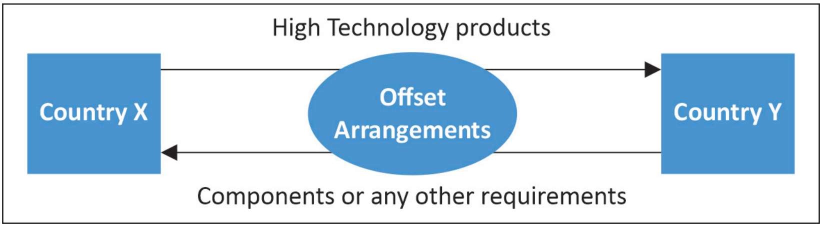
**Example of Counterpurchase (India and Iraq: Project Exports):** Indian project exporters had secured contracts of around US$ 2 billion in Iraq. With the commencement of the Iran-Iraq war in 1980, payments from the Iraqi clients stopped in 1982. In order to solve the payment problems, the Government of India (GOI) entered into Deferred Payment Arrangements (DPA) with the Government of Iraq covering 55 projects being executed by 24 project exporters. Under the umbrella arrangement of DPA, Indian Oil Corporation

Ltd. (IOC) entered into an agreement with the State Oil Marketing Organization of Iraq (SOMO) for purchase of crude oil from Iraq, and India Exim Bank entered into an agreement with the Central Bank of Iraq for working out the banking arrangements. Payments towards oil imports by the IOC were made into a designated account of India Exim Bank, which were used to pay the running bills of the Indian project exporters on behalf of their Iraqi clients.

## 1.3 Offset

In an offset agreement, importers require the contractors to purchase a predetermined level of components from subcontractors located within the importing country, or to fulfil other portions of the private firm's international purchasing requirements from firms within the importing country, or even to assist the importing country in selling its unrelated products to third countries.

***Figure 3: Graphical Representation of Offset***




**Example of Offset Arrangement (Defence Sector)**: India has a well-defined offset policy for its defence imports. Under India's offset policy, foreign defence entities must invest at least 30 percent of the total defence contract value in India through procurement of components or setting up of research and development facilities. As of March 2022, the Ministry of Defence, GOI has signed 57 Offset contracts valued at US$ 13.52 billion to be discharged through Indian Offset Partners[1]. An example of offset arrangement is the

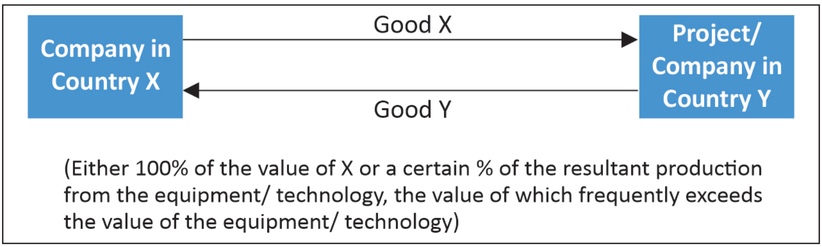
[1] Report of the Standing Committee on Defence titled "Capital Outlay on Defence Services, Procurement Policy, Defence Planning and Married Accommodation Project", (Seventeenth Lok Sabha), March 2022

setup of electrical harness manufacturing capacity by Pilatus Aircraft Ltd., Switzerland at the Bharat Electronics Ltd.'s Bangalore Complex. Locally made harnesses from the facility are being used for the global supply chain of Pilatus. Pilatus Aircraft Ltd. had supplied 75 PC-7 Mk II Turboprop Basic Trainer Aircraft to the Indian Air Force.

## 1.4 Buyback (Compensation)

Buyback or Compensation is a countertrade mechanism where supplier of plant/equipment to project/company in another country assures buyback of certain quantities of products made with that plant/equipment. In such transactions, the first party agrees to sell machinery, equipment, technology, or a turnkey project (equipment/technology) to the second party and the first party separately agrees to accept as a partial or full payment from the second party a predetermined amount of the product manufactured from the equipment/technology supplied by the first party. The value of goods received by the first party frequently exceeds the value of the original equipment/technology. The contract period of buyback arrangements is considerably longer than that of counterpurchase arrangements.

***Figure 4: Graphical Representation of Buyback***

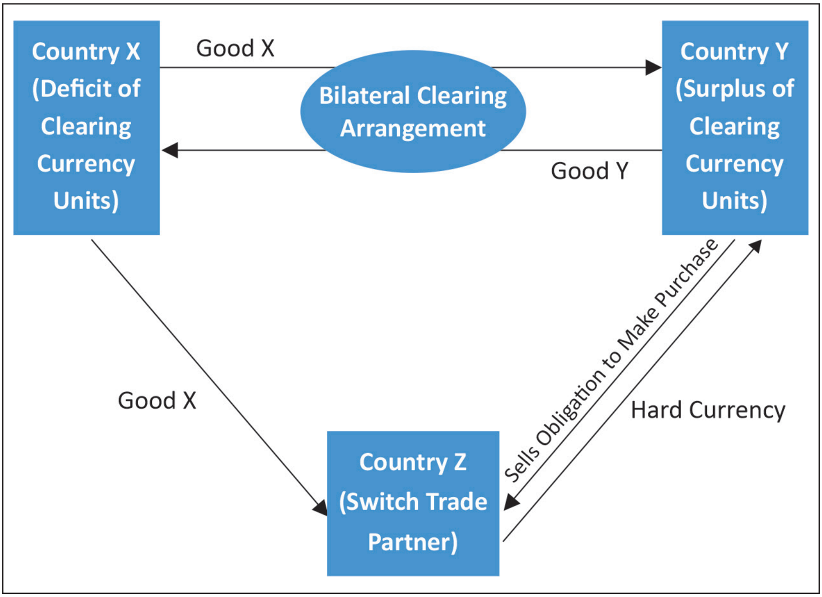



**Example of Buyback (India and the Erstwhile Soviet Union)**: National Textiles Corporation Ltd. of India signed a buyback agreement of ₹ 200 million with the erstwhile Soviet Union to buy 200 sophisticated looms. The buyback ratio was 75 percent of the textile produce from the looms and the remaining was in cash.

## 1.5 Switch trading

Switch trading is a practice in which one country sells to another its obligation to make a purchase in a given country. For example, if country Y has a credit in its account against country X (arising through compensation or other payments arrangements), then Y identifies a country Z, which is interested in purchasing the products of X. Country Y sells its obligation at a discount to country Z to receive hard currency.

***Figure 5: Graphical Representation of Switch Trading***

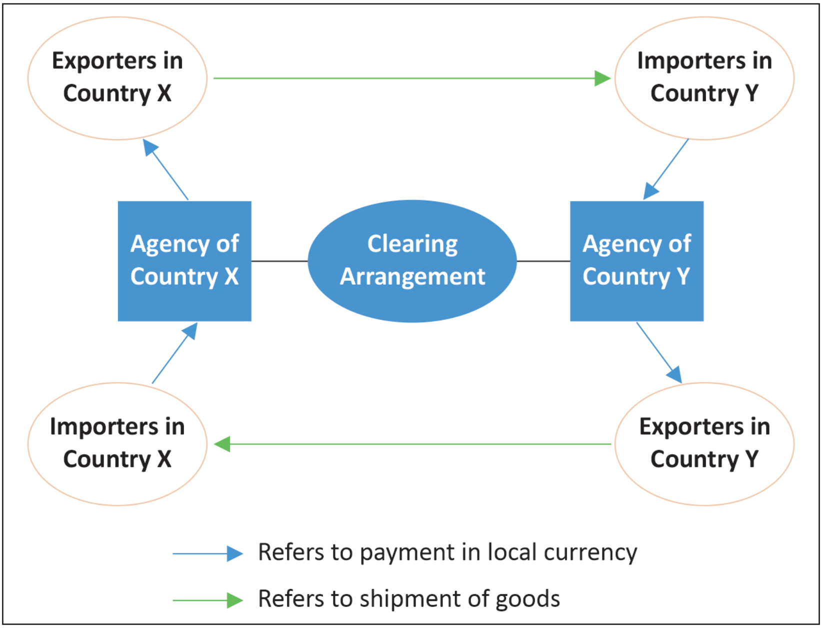



**Example of Switch Trading (Poland and Greece):** Poland and Greece had a counterpurchase agreement that called for Poland to buy the same value of goods from Greece that it sold to the country. However, Poland did not have enough demand for Greek goods, leading to a dollar denominated counterpurchase balance in Greece that it was unable to use. A switch trader bought the right to counterpurchase dollars from Poland and sold them to a European merchant, who used the right to purchase grapes from Greece.

## 1.6 Clearing Arrangements

Clearing agreements are entered when two nations encounter a coincidence of needs. They must determine the type and quantity of goods that they wish to obtain from each other, and establish an exchange ratio to be used over the specified life of the contract. Agreed volume of goods are imported and exported by the countries over a specific time period without the payment of foreign currencies. If a country does not purchase enough goods to balance its accounts within the set time limitation, it receives clearing credits. Although stated in terms of currency, clearing credits cannot be redeemed for currency.

***Figure 6: Graphical Representation of Clearing Arrangement***

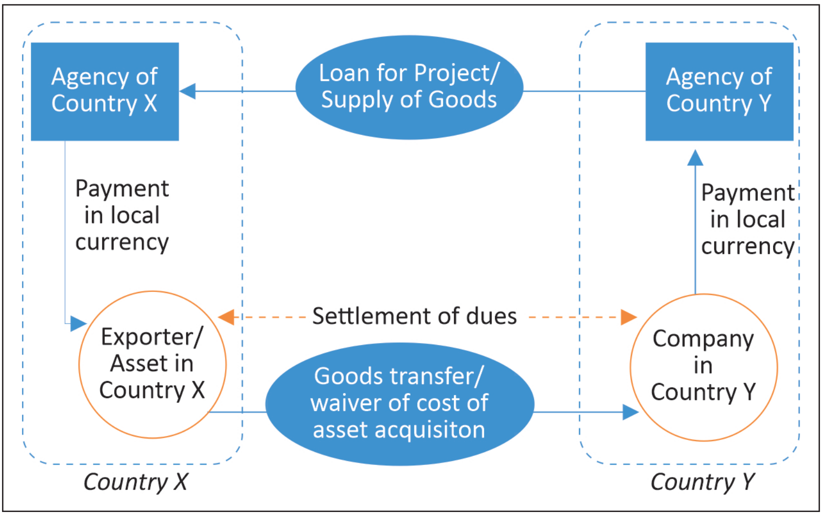



**Example of Clearing Arrangement (India and Iran)**: India-Iran Rupee payment mechanism was established in view of the US sanctions on Iran in 2012. Under this mechanism, a few Iranian Banks opened Indian Rupee Vostro Accounts with UCO Bank. The payments towards imports of crude oil by the Indian oil importing companies were credited to this account in Indian Rupee. As per this arrangement, 50 percent of the payment towards oil imports could be used towards payment to Indian exporters for their exports of various items to Iran. Iran could not actually take the Indian Rupee which was parked in the Special Non-Resident Rupee Vostro Account — but could use it to buy Indian goods.

## 1.7 Debt-for-Goods

Debt-for-goods is a countertrade transaction whereby a debtor country offers its goods or services to avail funding or to cover full or partial repayment of an outstanding debt. Under this, the countertrade route can be utilized for repayments of funded facilities extended to overseas entities or the countertrade terms can be part of the initial negotiations. Debt-for-goods could be in the form of import of goods from the debtor country or acquisition of available assets in the country. Several countries are actively engaged in this model of countertrade. A case in point is Philippines, which has debt-for-good in its national Figureer for countertrade.

***Figure 7: Graphical Representation of Debt-for-Goods***



**Example of Debt-for-Goods (India and Vietnam):** Under India Exim Bank's Commercial Line of Credit to Vietnam in the 1980s, in lieu of payment towards servicing the loan, Food Corporation of India imported rice from Vietnam but paid to IDBI/India Exim Bank towards debt repayments of Vietnam.

**Example of Debt-for-Goods (Philippines):** Philippines has a Countertrade policy, which includes debt-for-goods arrangements. Under debt-for-goods arrangements, as on February 2014, Philippines concluded three transactions involving three countries, Romania, China and Iraq:

- For the purchase of machinery and equipment from Romania, the National Power Corporation in Philippines incurred a debt of US$ 8.85 million under a soft loan package, which was settled by exporting merchandise such as crude coconut oil, garments, personal care products, tropical fruit juices etc. of equivalent value to Romania.
- For the purchase of mini-hydro equipment from China, the National Electrification Administration in Philippines incurred a debt of US$ 11.5 million, and settled it by supplying equivalent value of copper cathodes to China.
- To settle an obligation of unfinished road project in Iraq valued at US$ 20 million, Philippines exported sugar, pharmaceuticals and coconut oil to Iraq.

**Debt-for-Goods by Export Credit Agencies:** Several Export Credit Agencies (ECAs) have utilized countertrade arrangements as a debt conversion tool. While some of the loan facilities extended by the ECAs are in the nature of countertrade arrangement from the outset, several others are restructured into countertrade arrangements in case of debt distress.

Some key examples of ECAs engaging in countertrade arrangements are:

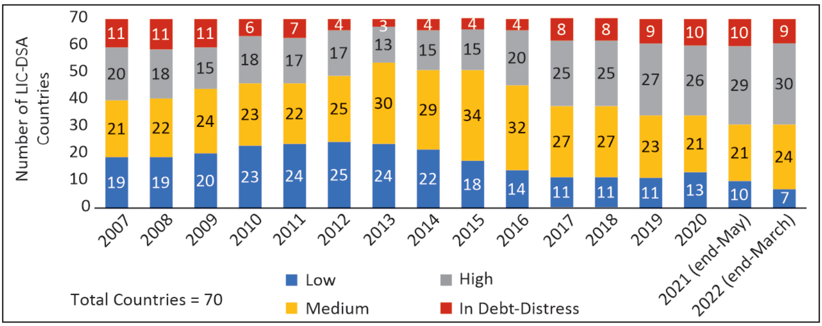
- **China Exim Bank**: The Government of DR Congo allocated extraction licenses for its cobalt and copper mines to a Chinese consortium led by state-owned China Railway Engineering Corporation in exchange for the consortium's commitment to finance US$ 6.6 billion of infrastructure projects of a public good nature, and another US$ 3 billion of investment in the mining project itself. The Chinese consortium reimbursed its main financier, the Export-Import Bank of China (China Exim Bank), for the cost of financing the infrastructure with revenue from the mines.
- **UK Export Finance**: The UK Export Finance's debt conversion scheme allows a proportion of outstanding debts owed to the UK Export Finance by a number of countries to be converted into local currency at a discount for investment in local projects approved by the UK Export Finance and the government of the country concerned. The scheme is applicable for the countries of Bosnia, Ecuador, Egypt, Indonesia, Kenya, Pakistan, Serbia, and Vietnam.

# 2 Rationale for Countertrade Arrangement

## 2.1 Background

In the wake of the Covid-19 pandemic, developing economies, particularly least developed countries (LDCs) have been facing severe fiscal strains and high risks of default on their debt obligations. As per the IMF data on the risk of debt distress in low-income countries (LICs), as of end-2020, 26 countries out of the 70 LICs under consideration were at high risk of debt-distress and 10 countries were already in debt-distress, while 13 countries remained at low risk. By March-end 2022, the number of LICs at high risk of debt distress increased to 30, while the number of low-risk countries came down to only 7, indicative of the worsening debt position of LICs (**Figure 8**).

***Figure 8: Movements in the Risk of Debt Distress in Select Low Income Countries***



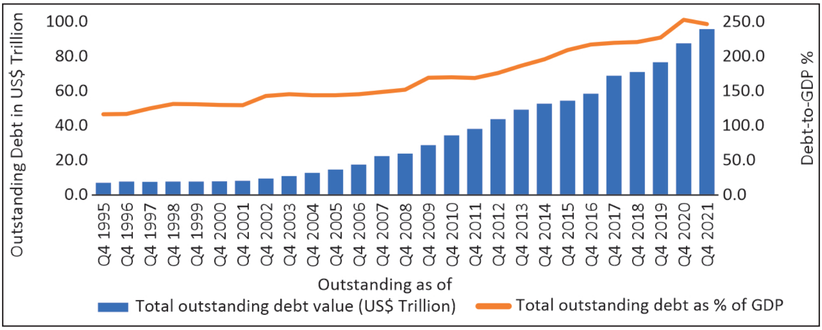

*Source: IMF; India Exim Bank Research*

A broad-based increase in the risk of debt distress in the recent years has raised concerns about debt sustainability in low-income economies, and their ability to finance their developmental needs. The massive disruptions to economic activities caused by the Covid-19 pandemic have further exacerbated the debt burdens of developing countries, amid rising health and economic needs. Such rising debt burdens are not limited to low-income countries though. In the recent period, there has been an increase in the debt burdens of several middle-income countries, with a greater likelihood of default on sovereign borrowings in some of these middle-income countries. Recently, middle-income countries such as Sri Lanka and Zimbabwe have also been grappling with issues pertaining to debt repayments due to their excessive debt dependence.

## 2.2 Debt Dependence and Debt Service Burden

An analysis of trend in the total value of debt between 2011 and 2021 highlights that even before the pandemic, the cumulative value of outstanding debt of emerging market economies had more than doubled, from US$ 34.4 trillion in 2010, to reach US$ 76.7 trillion in 2019 (**Figure 9**). Concomitantly, the weighted-average debt to GDP

***Figure 9: Debt Dependence of Emerging Market Economies***

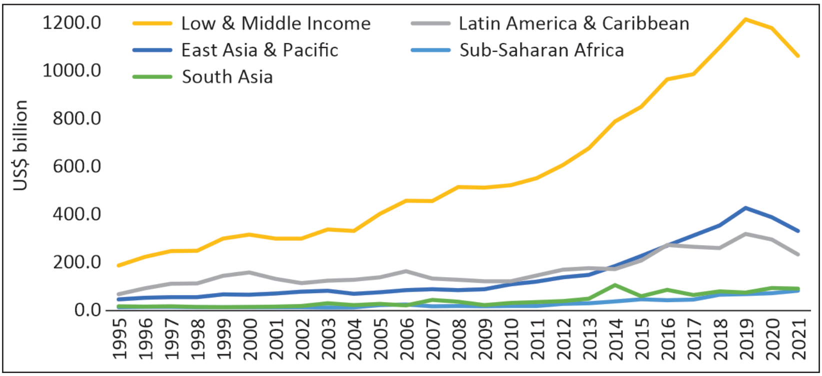



*Note: Data pertains to emerging market economies, as classified by the Institute of International Finance*

*Source: Institute of International Finance, Global Debt Monitor; India Exim Bank Research* ratio in these emerging market economies had also ballooned from 170 percent of GDP in 2010 to reach nearly 227.7 percent of GDP in end-2019. In the wake of the disruptions caused by the Covid-19 pandemic, the debt dependence of emerging market economies has further intensified, with debt levels rising further to US$ 95.9 trillion (247.1 percent of GDP) by end-2021.

The rise in debt dependence is also accompanied by increasing burden of debt service commitments of these developing countries. Analysis of the trends in total debt service commitments of developing economies indicates that the overall debt service burden of low- and middle-income countries has grown by two-fold between 2010 and 2021, while in the low- and middle-income countries of Sub-Saharan Africa, it has grown by more than four-folds during the same period, from US$ 18.7 billion in 2010 to US$ 83.2 billion in 2021. In the low- and middle-income countries of South Asia, the debt service obligation has more than doubled during the period 2010 to 2021 (**Figure 10**).

***Figure 10: Debt Service Payments on External Debt of Developing Economies***



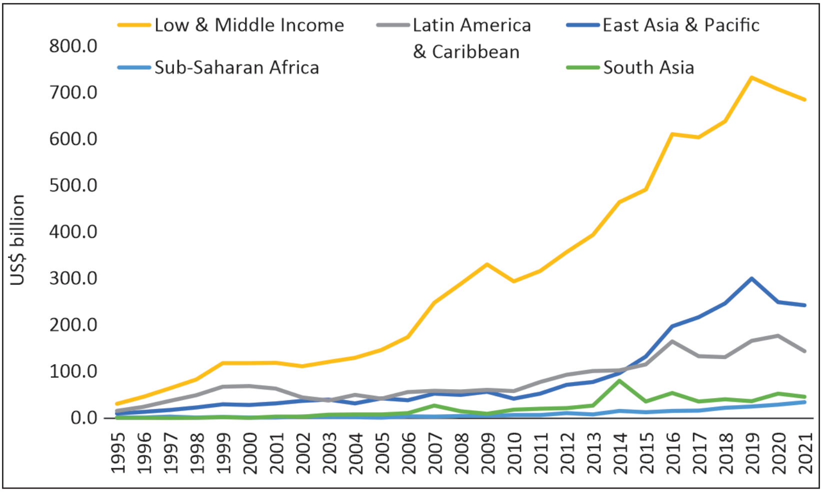

*Note: Data for East Asia & Pacific, Latin America & Caribbean, Sub-Saharan Africa and South Asia includes only low- and middle-income economies, as classified by the World Bank. Data for low and middle income countries includes data for 123 countries across all regions.*

*Source: International Debt Statistics Database, World Bank; India Exim Bank Research*

In the wake of Covid-19, the pressure to meet the debt service obligation has further intensified, as scarce forex reserves are being used for combating the pandemic induced disruptions. At a time when Covid-19 related disruptions are already affecting international trade and investment flows in developing countries, the mounting debt service burden is further straining the balance of payments of low- and middle-income countries.

It is also noteworthy that during the period under consideration, debt service burden on private, non-guaranteed external debt of developing economies has grown rapidly. Over the period under consideration, debt service on private, non-guaranteed external debt of low- and middle-income countries more than doubled, from US$ 295.2 billion in 2010 to US$ 686.0 billion in 2021 (**Figure 11**).

***Figure 11: Debt Service on Private, Non-Guaranteed External Debt of Developing Economies***




*Note: Data for East Asia & Pacific, Latin America & Caribbean, Sub-Saharan Africa and South Asia includes only low- and middle-income economies, as classified by the World Bank. Data for Low and middle income countries includes data for 123 countries across all regions.*

*Source: International Debt Statistics Database, World Bank; India Exim Bank Research*

Interest rate hikes by systemically important central banks, and spiralling inflation around the world could further intensify the pressure on external debt servicing, particularly for developing countries, as it could make it more expensive for countries to meet their dollar-denominated debt obligations in the near future.

In light of these developments, countertrade could be a useful mechanism for developing countries to overcome the balance of payments difficulties arising due to rising external debt servicing burden as also the rising risk of debt distress. Countertrade could be used as a debt conversion tool, particularly in countries that have significant resource endowments.

## 2.3 Export Product Concentration

A peculiar characteristic of most low-income countries, particularly LDCs is that they are resource rich and primary sector dominant economies. This is evident from an analysis of the product concentration index of exports[2] for these countries, which indicates the extent to which the exports of individual economies, or groups of economies, are dominated by a few products rather than being distributed among several products. An analysis of the product concentration index of LDCs vis-à-vis other regions highlights that though the export product concentration of LDCs has declined substantially over the years, it remains far more concentrated than the global average (**Figure 12**). This is particularly stark in the case of LDCs in Africa, which have the highest concentration of export products.

[2] Herfindahl-Hirschmann index (product HHI) is used to measure the degree of product concentration.

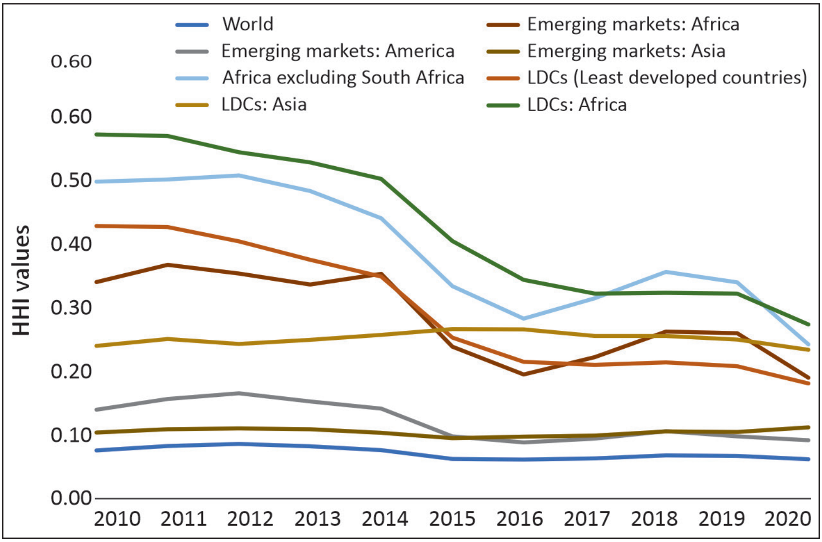
$$H_i = \frac{\sqrt{\sum_{j=1}^{n} \left(\frac{x_{ij}}{X_i}\right)^2} - \sqrt{\frac{1}{n}}}{1 - \sqrt{\frac{1}{n}}}$$

where - $H_i$ = value of concentration index for country $i$; $x_{ij}$ = value of export for product $j$ and country $i$; $X_i$ = total exports from country $i$; $n$ = number of individual products

The dependence of LDCs on exports of few products, largely primary commodities and fuels, makes these economies susceptible to commodity price fluctuations. The rise and fall in commodity price and global demand tend to directly affect the trade balance of LDCs. Particularly in the case of fall in commodity prices, the trade balance of LDCs significantly deteriorates. Countertrade, can alleviate challenges arising due to sudden dip in commodity prices, by ensuring a steady demand for resources of LDCs at a stable contracted price.

Further, lack of diversification in exports from LDCs is also linked to lack of industrial capacity in these economies. Countertrade also has the ability to increase productive capacities of these economies and promote value-addition, through knowledge and technology transfer.

***Figure 12: Product Concentration Index of Exports***




*Note: HHI values range between 0 and 1, with values closer to 1 indicating higher degree of concentration of products in the export basket and vice versa.*

*Source: UNCTAD*

## 2.4 Rationale for Countertrade

The present multilateral trade and payment systems have evolved over several years of practice, deliberation and innovation. It affords transparency and economic efficiency to all stakeholders. It is, therefore, not surprising that countertrade arrangements form a small and insignificant share of the overall global trade.

Countertrade arrangement could be used in situations where there are challenges in using the currency-based trading mechanism. As cited earlier, in situations where countries face issues of depleting foreign exchange, countertrade provides an alternative to traditional financing for trade.

Some of the other reasons that prompt countries to resort to countertrade include:

- To overcome balance of payments difficulties arising from sluggish export growth and rising external debt-servicing. Under such circumstances countertrade could serve as a debt conversion tool;
- To generate steady demand both for the products manufactured by developed economies and the natural resources available with developing economies, and thereby stabilize the price level;
- To overcome the challenges associated with protective trade policies of some countries – like currency restrictions, non-tariff barriers etc.;
- To circumvent challenges associated with outward remittance of foreign exchange, including economic sanctions, where conventional means of payment is non-existent or complex for a variety of reasons;
- To generate financing to create critical infrastructure that are required in a developing economy, without resorting to debt; and

- To hedge against currency risk. Hedging currency risks through countertrade rather than financial instruments may be desirable because (a) purchasing financial instruments requires an upfront financial payment; and (b) the hedging instruments like futures/ forwards for hedging currency risk (for the overseas countries) may not be available for longer tenors given the depth of financial markets in HIPCs and LICs. However, the effectiveness of hedging will vary based on the structure of the transaction adopted, with hedging being most effective in Barter Trade and Buy Back transactions.

# 3 Comparison of Existing Countertrade Policies

## 3.1 Philippines

In Philippines, the countertrade policy was announced in 1993. The policy directs the government, and its departments, bureaus, agencies and offices, to adopt countertrade as a supplemental trade tool for transactions involving the importation or procurement of foreign capital equipment, machinery, products, goods, and services entailing payment of at least US$ 1 million or its equivalent in Philippine Peso (PHP) and to negotiate and conclude, on a best efforts basis, agreement or arrangements on countertrade with respect to such imports[3].

The Philippine International Trading Corporation (PITC) is the sole implementing agency of this programme on behalf of the Department of Trade and Industry, Government of Philippines. By leveraging on government procurement of imported equipment with reciprocal benefits to be provided by foreign suppliers, PITC generates additional exports and creates opportunities to fast-track the inflow of investments, technology, industrial cooperation, specialized training and skills.

[3] Counter-trade Policy Brief, Philippine International Trading Corporation

### 3.1.1 *Examples of Countertrade in Philippines*

Acceptable forms of countertrade in Philippines include counter-purchase, direct and indirect offsets, buy-back arrangements, and debt-for-goods, among others.

**Offsets**

As per the policy, acceptable offsets under the countertrade agreement are investments, technology transfer, grants, research, training and other related activities such as donation for the benefit of procuring government agency or any other government agency. Exports from Philippines, both merchandise and services, are also acceptable.

As per the policy, a multiplier is applied to the actual value of certain offset transactions to calculate the credit value earned by the firms, in order to incentivize firms to offer offsets that benefit targeted areas of economic growth. Multipliers are only applied to offset activities and to exports. There are two multipliers in place, as under:

- Multiplier value of 10 for offset activities that are beneficial directly to the procuring government agency; or
- Multiplier of 7, if beneficial to other government agencies or other institutions.

Some of the examples of offsets agreement include:

- In July 2010, Bureau of Jail Management and Penology (BJMP), Philippines, imported 156 units of Prisoners' Van from United Asia Automotive Group Inc. (UAAGI), China. The two entities entered into an offset agreement, valued at US$ 1.3 million, covering 50 percent of the value of the Supply Contract. The offset components under this agreement included a sponsorship worth US$ 0.011 million for BJMP; donation of Armoured Personnel Carrier worth US$ 0.57 million to the Philippines

Army; sponsorship worth US$ 0.042 million for the Philippine Practical Shooting Association; donation of a Foton View Ambulance 2011, worth US$ 0.18 million to the Commission on Election, Philippines; and investment worth US$ 0.53 million by Beiqi Foton Motor Co., Ltd. (a Chinese company which designs and manufactures trucks, buses, sport utility vehicles and agricultural machinery) for establishing a Foton Subic Showroom in Philippines, to be managed by UAAGI.

- In August 2011, GIGI Industries (Trust Trade) entered into an offset agreement with BJMP worth US$ 2.2 million, for a transaction involving supply of 500 units of Caliber 5.56 x 45mm Rifles and 690 units of Short Firearms (9mm Pistols). GIGI Industries subsequently conducted various specialized training events for government agencies as part of the offset agreement. This included, a GLOCK Armourer's Course conducted for the Philippine National Police (PNP) valued at US$ 1.83 million; GLOCK Tactical Pistol Course for the PNP (Luzon) valued at US$ 0.17 million; GLOCK Tactical Pistol Course for the PNP (Visayas & Mindanao) valued at US$ 0.09 million, among others.

**Counterpurchase (Counter Exports)**

In counterpurchase arrangement, the primary supplier accepts parallel obligations to purchase products and/ or services from the buyer's country. As per latest available data, there have been about 105 counterpurchase transactions in Philippines[4] since 1989 till February 2014. An example of counterpurchase includes:

In 2003, the PITC and Vinafood II (Vietnam) entered into a counterpurchase agreement worth US$ 32.8 million wherein Vietnam agreed to supply long-grain white rice to the Philippines through the National Food Authority in exchange for fertilizers equivalent to at least 50 percent of the total rice shipment value.

[4] Philippine International Trading Corporation: Summary of Completed Countertrade Transactions - As of February 2014

**Debt-for-Goods**

Philippines has, in the past, also entered into debt-for-goods arrangement. Under debt-for-goods arrangements, Philippines has concluded transactions involving countries such as Romania, China and Iraq. This included:

- National Power Corporation, Philippines purchased machinery and equipment under soft loan package worth US$ 8.85 million from Romania, in return for which products such as crude coconut oil, garments, personal care etc. of equivalent value were exported to Romania.
- For the purchase of mini-hydro equipment, National Electrification Administration, Philippines borrowed a loan of US$ 11.5 million from China, which was settled through exports of copper cathodes of equivalent value.

### *3.1.2 Modalities of the Countertrade Policy in Philippines*

There are certain rules and regulations governing the countertrade policy in Philippines. As per the policy, the adoption of countertrade arrangement is applicable for government's importations and procurement of services from foreign suppliers entailing payment of at least US$ 1 million, or its PHP equivalent. Under the arrangement, foreign bidders/suppliers are required to sign an undertaking to pursue countertrade which commits them to perform countertrade once they are awarded the supply contract for capital goods, equipment, machinery, products, and services. Within 90 days of the contract award, the bidders are required to sign a supplemental contract i.e., a Countertrade Agreement with PITC outlining the terms and conditions of its countertrade performance. The countertrade obligation/commitment of foreign suppliers should cover at least 50 percent of the value of the supply contract. Suppliers are given 2 years from the date of the supply contract to perform their countertrade obligations. Confidentiality clauses and performance bond are also included in the contract. In case of non-fulfilment of the countertrade obligation, the policy has in place a penalty to the tune of 5 percent of the value of the unfulfilled Countertrade obligation.

## 3.2 Indonesia

Countertrade in Indonesia was officially introduced for government contracts in 1982 to expand exports and as a response to protectionism in industrialized countries. The common countertrade methods that are still being used in Indonesia include barter, buyback, and offsets.

### *3.2.1 Examples of Countertrade in Indonesia*

In the defence sector, Indonesia has a long history of countertrade arrangements for the procurement of defence platforms from Russia. For instance, in 2003, Indonesia acquired the Russian Sukhoi SU-27 SK and SU-30 MK combat aircraft. This deal involved down-payment of 13.5 percent of the total contract value of US$ 192 million, while the remaining was settled through the countertrade of commodities.

Indonesia has also been exploring countertrade opportunities with Argentina, in order to double the value of bilateral trade, in the wake of growing trade uncertainties globally. Additionally, the Indonesian government is looking forward to more countertrade arrangements for its defence imports to ease the economic constraints triggered by the Covid-19 pandemic.

### *3.2.2 Modalities of the Countertrade Policy in Indonesia*

While Indonesia had detailed guidelines in place for its countertrade operations, it lacked, until recently, a formalized policy for countertrade/ offsets, despite having decades of experience. The regulations governing countertrade were initially spelt under the

Ministry of Trade's document titled "Guidelines for Implementation of Linking Government Procurement with Indonesian Non-Petroleum Exports". The guidelines were applicable to government procurement done through international tender for projects valued more than IDR 500 million, and excluded procurement under soft loans and credits from international institutions like the World Bank, the Asian Development Bank and the Islamic Development Bank. Under the countertrade agreements, the foreign suppliers were required to sign a Letter of Understanding, to purchase Indonesian products equal to the FOB value of the products supplied. This was submitted to the Director General of External Trade for approval. The actual transactions were, however, carried out directly between the foreign importers and Indonesian exporters. While the aim of the countertrade guidelines was to benefit Indonesian exports, the execution of countertrade was free in terms of which commodities they want to buy and which country they want to ship their goods. An example of this type of agreement was the state trading agreements between Indonesian tea exporters and Pakistani importers through the Trading Corporation of Pakistan[5]. This involved a special trading agreement worth US$ 20 million between Pakistan and Indonesia for the import of tea in exchange for exportable goods.

Currently, the provisions on countertrade are regulated under the Government's Regulation No. 29 of 2017 regarding 'Payment of Goods and How to Deliver Goods in Export and Import Activities' and Regulation Number 28/M-Dag/Per/5/2017 of the Minister of Trade, concerning 'Changes With regard to Regulation of the Minister of Trade No. 44/M-Dag/6/2016 concerning Provisions for Purchase Returns for Procurement of Imported Government Goods'. These policies govern the use of countertrade for payment of goods in import activities, excluding defence-related imports.

[5] Countertrade: Policies and Practices in OIC Member Countries, Islamic Development Bank, 2002

Indonesia has also established a policy for offset requirements in procurements from foreign defence suppliers with the introduction of its defence law in 2012 and subsequent implementing regulations in 2014. For trade in defence equipment, the Government of Indonesia has a mechanism in place under the Government Regulation No. 76 of 2014 concerning the 'Trade Return in the Procurement of Foreign Defence and Security Equipment Tools' and the Minister of Defence Regulation No. 30 of 2015 concerning 'Trade Returns, Local Content, And Offset in the Procurement of Defence and Security Equipment Tools from Overseas', both of which regulate the reciprocal trade activity between Indonesia and foreign parties with regard to the procurement contract for defence and security equipment tools. These policies authorize Indonesian end users to procure defence articles from foreign suppliers, only if those articles cannot be produced within Indonesia. Further, such procurements are also subject to Indonesian local content and offset policy requirements. For instance, according to the 2014 legislation and subsequent implementing regulations, an initial 35 percent of any foreign defence procurement or contract must include local content, and this 35 percent local content threshold would increase by 10 percent every five years following the 2014 release of the implementing regulations until a local content requirement of 85 percent is achieved by 2039[6]. These policies also include other types of countertrade agreements, transfer of technology agreements, and other mechanisms, all of which are negotiated on a per-transaction basis. Decisions regarding authorized local content, and other key aspects of the law pertaining to countertrade arrangements in defence articles are made by the Defence Industry Policy Committee (Komite Kebijakan Industri Pertahanan (KKIP)), an entity comprising Indonesian interagency representatives and defence industry leadership. The KKIP's task is to develop the capabilities in the overall domestic defence industry, with regard to both defence

[6] 2020 Investment Climate Statement for Indonesia, the USA Department of State; "Offsets in the Aerospace and Defence Industry", IFBEC

equipment and non-defence equipment. It may be noted that the rules for offsets and local content apply to major new acquisitions only, and do not apply to routine or recurring procurements such as those required for maintenance and sustenance.

In July 2020, the Indonesian Ministry of Trade issued a statement indicating that the country is undertaking discussions with several partner countries for expanding the scope and applications of countertrade in defence purchases, and exploring the possibility for exchange of locally produced commodities with military suppliers. To that end, the country is looking at countertrade arrangements for its exports of local commodities such as palm oil, rubber, machinery, coffee, cocoa, textile products, tea, footwear, fish products, plastics, resins, paper and spices, among others[7].

In 2021, Indonesia also signed an MoU with Germany for countertrade cooperation.

### *3.2.3 Lessons from the Indonesian Experience*

Despite having enormous opportunities for countertrade, the implementation of countertrade in Indonesia has not yet reached its optimum levels, which indicates the limitations and risks in any countertrade arrangement. A case in point is the purchase of the 11 Sukhoi SU-35 aircraft from Russia valued at US$ 1.14 billion in exchange for products such as rubber, coffee, palm oil, tea and other strategic product. This countertrade deal included an offset arrangement of 35 percent and also provided export opportunities for Indonesia of nearly 50 percent of the value of the purchase, worth US$ 570 million. This deal also included the establishment of maintenance, repair and overhaul facilities in Indonesia, as part of the offset arrangements, which would have enabled the country to maintain its fleet of Sukhoi jet fighters, and also help the country emerge as a potential regional maintenance hub for Sukhoi fleets for

[7] Indonesia looks to expand countertrade options, July 17, 2020, JANES

neighbouring countries like Malaysia and Vietnam. However, there were several challenges in the implementation of this countertrade arrangement. The most crucial challenge was pertaining to a mutually agreeable set of commodities for countertrade. The Russian government had sought to buy raw rubber, but Indonesia favoured trade in finished rubber goods such as tyre, with a view to improve the domestic industry[8]. Clearly, a mutually agreeable set of products for exchange is a challenge for countertrade arrangements.

## 3.3 China

The most common countertrade arrangement for China in recent times is a type of Debt-for-Good Model. Commonly referred as the Resource Financed Infrastructure (RFI) model, it is a relatively new form of financing infrastructure in countries with abundant natural resources—typically hydrocarbons or metal ore—but with poor overall infrastructure. In this model, a resource-rich country's government usually grants a resource development and production license to a private developer, in return for infrastructure, pursuant to a financing mechanism linked to the resource activity. The emergence of the RFI model is partly attributable to the existing gap in risk tolerance and expected return between the extractive and the infrastructure sectors. On the one hand, traditional sources of long-term finance have been increasingly sceptical to finance infrastructure, particularly in developing countries; on the other hand, aid flows to developing countries have also been declining. In this scenario, to access sources of finance for investment, several countries have been using their natural resources as collateral, countervailing barriers to conventional bank lending and capital markets. The RFI is one such contractual arrangements emerging from this context, and increasingly being sought by China.

[8] Countertrade Mechanism of Global Arms Trade: Case Study of Indonesia, Zainal Arifin, Agus Suman & Moh. Khusaini, October 2019

The World Bank defines an RFI arrangement as, “a loan for current infrastructure construction securitized against the net present value of a future revenue stream from resource extraction, adjusted for risk”. Disbursement of this loan typically commences when a joint infrastructure-resource extraction contract is signed between the host country and the overseas construction company, and the amount – usually equal to the construction costs - is paid directly to the construction company. The revenues from the resource extraction are disbursed directly to the financing institution, after initial capital investments for the extractive project have been recovered, which usually takes about a decade or more[9].

China has been extensively adopting this model over the past two decades, for financing critical infrastructure, including industrial and trade-related infrastructure projects in developing countries, especially Africa, in exchange for rich mineral resources. Using this model, the Chinese government has been able to internationalise its state-owned enterprises, by encouraging national companies to expand overseas and capture market share in resource industries, and help build infrastructure in developing countries, especially in Africa, which in turn has supported extraction of minerals. This approach has led Chinese companies to penetrate complex natural resource markets, as also gain competitive advantage over other competitors in the extractives industry.

### *3.3.1 Examples of Countertrade in China*

#### 3.3.1.1 Angola

The China Exim Bank began financing this type of contract in 2004, starting with Angola. RFI became a key channel for financing the post-war reconstruction efforts in Angola. In the case of Angola, China’s large loans were channelized to the development of infrastructures and repaid through the exports of natural

[9] Resource Financed Infrastructure: A Discussion on A New Form of Infrastructure Financing, World Bank, 2014

resources. Following this model, the Angolan Cabinet signed several infrastructure contracts with Chinese corporations, to be implemented in several phases using financial support from China Exim Bank **(Table 1)**.

***Table 1: Angolan Infrastructure Contracts with Chinese Corporations***

| Infrastructure projects/contracts | Description |
|---|---|
| Rehabilitation of the City of Luanda | Rehabilitation of the City of Luanda and five municipalities, namely Kilamba Kiaxi, Rangel, Ingombota, Cazenga and Sambizanga. |
| Rehabilitation of infrastructure in Cazenga-Cariango | Construction of the principal channels and the branches of the drainage system as well as the construction of infrastructures in the municipalities. |
| Construction of a draining system and rehabilitation of infrastructure in Precol and Suroca | Construction of the principal system of rehabilitating the infrastructure in Suroca and Precol. |
| Construction of a central draining system and rehabilitation on Senado Street of Câmara, Rio Seco and Maianga | Construction of the principal system of ramification (i.e., branches) of infrastructure on Senado Street of Câmara, Rio Seco and Maianga. |
| Distribution project for water supply | Renovation of 300 kilometers of water supply, 300 fountains, 2800 valves, 30,000 meters, 13 pumps and 5 control stations. |
| Construction of 215,500 houses in 24 cities and 18 provinces | Construction of 215,500 housing units with total construction area of 31,436,709 $m^2$. |
| Rehabilitation of the road Luanda-Sumbe-Lobito | Rehabilitation consisting of a total of 497 kilometers of roads, including reconstruction of roads, bridges and ditches. |
| Rehabilitation of the road Malanje-Saurimo and Luena- Dundo | Rehabilitation of roads with a total length of 1,107 kilometers, including reconstruction of roads, bridges and ditches. |

| Infrastructure projects/contracts | Description |
|---|---|
| Rehabilitation of the railway of Luanda | Rehabilitation of railways with a total length of 444 kilometers, including reconstruction of roads, bridges and ditches, and other installations. |
| General rehabilitation of the railway of Benguela | Rehabilitation of railways with a total length of 1,547.2 kilometers, including reconstruction of roads, bridges, ditches and other installations. |
| General rehabilitation of the railway of Moçamedes | Rehabilitation of railways with a total length of 1003.1 kilometers, including reconstruction of roads, bridges, ditches and other installations. |
| New International Airport of Luanda | EPC, preparation, supply and construction contract for a new airport, including 'carport,' cargo areas and other constructions. |
| **Studies and Technical Projects** | |
| Projects for the building of housing | Project for the construction of 215,000 housing units with a total construction area of 31,436,709 $m^2$. |
| Rehabilitation of infrastructure | Project for the rehabilitation of five public infrastructures. |
| General and urban planning of the new City of Luanda | General planning of one new city, including management and investment proposals and urban planning. |
| General and urban planning of the administration center of Luanda | General planning of an administration center, including ministerial office buildings, a Supreme Court building, parliament, presidential house, etc. |
| Landscape project for Luanda | Landscape project for the administration center of Luanda. |

Source: On the Road to Post Conflict Reconstruction by Contract: The Angola Model, Dunia P. Zongwe, 2010 (based on Angolan Govt. Cabinet Resolution "Resolução No. 61/06, de 12 de Julho de 2006, Diário da República de 4.9.2006. art. 1 (Angl.). Annex.")

The Angola model was a state-to-state contractual arrangement, wherein Angola repays China's infrastructure loans with future exports of primary commodities i.e., oil, which was the primary source for the repayment. For the purpose of repayment of the loan, a joint venture partnership was formed between Angola's parastatal oil company, Sonangol, with the Chinese state-owned oil corporation Sinopec. The JV came to be known as Sinopec Sonangol International Ltd. (SSI). The repayment mechanism was, in essence, a production sharing agreement (PSA), wherein the local partner (i.e. Sonangol) in the SSI joint venture awards to Sinopec licenses to drill oil. The Chinese partners exercise control of the operations and bear most of the commercial risks. The two parties to the PSA divide the product amongst themselves based on an agreed formula[10]. The projects covered under the arrangement included 31 contracts in the first phase, and 17 contracts in the second phase, spanning across sectors such as health, education, energy and water, agriculture, transport, social communication, public works, fisheries, and post **(Table 2)**.

[10] Note: Detail of the exact formula is unavailable on public domain; however, research indicates that it is more likely that Chinese investors were the majority shareholders and consequently took greater part of the oil products.

Source: On the Road to Post Conflict Reconstruction by Contract: The Angola Model, Dunia P. Zongwe, 2010

*Table 2: Summary of Projects Financed under Debt-for-Goods Arrangement by China Exim Bank in Angola*

| Sectors | Phase 1 | | Phase 2 | |
|---|---|---|---|---|
| | Number of Contracts | Value of Contracts (US$ Mn) | Number of Contracts | Value of Contracts (US$ Mn) |
| Health | 9 | 206.1 | 1 | 43.8 |
| Education | 8 | 217.2 | 3 | 229.6 |
| Energy and water | 8 | 243.8 | 3 | 144.9 |
| Agriculture | 3 | 149.8 | 1 | 54.0 |
| Transport | 1 | 13.8 | - | - |
| Social communication | 1 | 66.9 | - | - |
| Public works | 1 | 211.7 | 2 | 89.5 |
| Fisheries | - | - | 3 | 266.8 |
| Post | - | - | 4 | 276.3 |
| **Total** | **31** | **1,109.3** | **17** | **1,104.9** |

Source: On the Road to Post Conflict Reconstruction by Contract: The Angola Model, Dunia P. Zongwe, 2010

### 3.3.1.2 Ghana

Recent example of the use of RFI model by China is the Sinohydro Agreement concluded in 2018 between the Government of Ghana and the Sinohydro Corporation, a Chinese state-owned enterprise specializing in infrastructure development. Through the Sinohydro Agreement, Ghana connected infrastructure financing to a pre-existing government plan to develop an integrated aluminum industry. The agreement stipulated that Sinohydro would be responsible for securing the financing for approximately US$ 2 billion worth of Ghanaian infrastructure projects. The planned infrastructure projects primarily consisted of road projects, to be constructed in two phases. Each of the planned projects required its own EPC contract. The Sinohydro Agreement required that

Sinohydro be the exclusive EPC contractor for the projects. In exchange, Ghana pledged to use income generated from the sale of bauxite (the primary ore used to make aluminum), refined bauxite, and aluminum to repay the loans. To collateralize the loans, Ghana also agreed to establish an offshore escrow account that would be Ghana's sole account for receiving revenues generated from the sale of refined bauxite[11].

According to Terrence Neal (2021), the loans to Ghana have fixed repayment schedules that provide a fifteen-year repayment period, a three-year grace period, with an interest rate of six-month USD LIBOR + 2.8 percent, applicable per annum. As for the collateral obligations, the agreements stipulated that the Ghanian Government must maintain, at all times, a balance sufficient to cover two loan repayment instalments in an offshore escrow account, and that the account shall be for the exclusive benefit of Sinohydro. The account is also agreed to be Ghana's only account for receiving income generated from the sale of refined bauxite. If Ghana fails to comply with its collateral or repayment obligations, Sinohydro is entitled to prepayment of outstanding loan balances and may seize the full balance of the escrow account[12].

Though the agreement does not include any information on a designated lender, it directs Sinohydro to take the lead on negotiating loan agreements with a lender to cover 85 percent of the costs of the planned infrastructure projects. The agreement also stipulates that once Sinohydro has arranged loan agreements, Ghana shall enter into deferred payment agreements (DPAs) with Sinohydro to assume all loan obligations.

[11] Terrence Neal (2021), The Environmental Implications of China-Africa Resource-Financed Infrastructure Agreements: Lessons Learned from Ghana's Sinohydro Agreement, Duke Nicholas Institute for Environmental Policy Solutions

[12] Ibid.

In December 2018, the Ghanaian Parliament approved DPAs and EPC contracts for ten projects with a combined cost of US$ 646 million, and subsequently, in 2019, loan funds were disbursed to cover the projects' costs. EPC contractors have since commenced the construction of road projects and a substantial portion of the loan funds have been cleared for disbursement[13].

In the past as well, Ghana has entered into such agreements with China. The Bui Dam, Ghana's second-largest hydroelectric plant, for example, was constructed by Sinohydro through a barter loan on cocoa.

#### 3.3.1.3 DR Congo

Another example of the use of RFI model by China is the 2008 Sicomines Agreement between the Democratic Republic of Congo (DRC) and several Chinese state-owned corporate entities[14], which combined direct investment in resource extraction with infrastructure development programmes. According to Jingwei Xu (2020), the Sicomines Agreement radically expanded the DRC's access to development finance[15].

The agreement had two phases –Phase I had set the framework for an initial exchange of direct bilateral aid in the form of US$ 350 million worth of signing bonus to the Government of DR Congo and a private commercial loan worth US$ 50 million. The private commercial loan was backed by mineral concessions from Gecamines, the DRC state-owned mining enterprise, to the public-private joint venture set up under the Agreement viz. the Sicomines JV which comprised 68 percent ownership by the Chinese consortium of enterprises and 32 percent ownership by Gecamines. In return, the Phase I required

[13] Ibid.

[14] Corporate entities owned by China's State-controlled Assets Supervision and Administration Commission of the State Council (SASAC)

[15] Jingwei Xu (2020), Chinese RFI—The Sicomines Case Study, Michigan Journal of International Law

the DRC to make some sovereign concessions up front, including passing the title of the unmined minerals to the Sicomines JV, and implementing a range of regulatory tax and customs waivers[16].

Phase II of the Agreement included loans worth US$ 3 billion from China Exim Bank at a rate of LIBOR + 100 basis points to fund large-scale infrastructure projects. According to Jingwei Xu (2020), Chinese contractors such as Sinohydro, China Railway and other potential contractors could submit tender bids to work on the list of pre-agreed infrastructure development projects.

As per the agreement, the loan funds were to be transferred directly from China Exim Bank to the Chinese corporate entities that won the infrastructure development contracts. The revenue generated from mineral trade by Sicomines JV was to be used to pay back the US$ 50 million of commercial loan in the initial Phase I, and the US$ 3 billion of infrastructure development loan in Phase II. Once the two loans were repaid, Sicomines JV would pay taxes to the Congolese government in accordance to the DRC's 2002 Mining Code[17] and the shareholders of the Sicomines JV would receive profits proportional to their ownership[18].

### *3.3.2 Modalities of the Countertrade Strategy in China*

**Loan Agreement**: One of the important elements of the contract in the RFI model is the terms and conditions mentioned in the infrastructure loan agreement based on the intergovernmental framework agreement between the two countries. In the case of Angola, for example, China Exim Bank was the lender and the

[16] Ibid.

[17] David G. Landry (2018), The risks and rewards of Resource-for Infrastructure deals: Lessons from the Congo's Sicomines Agreement, China Africa Research Initiative, Johns Hopkins School Of Advanced International Studies

[18] Jingwei Xu (2020), Chinese RFI—The Sicomines Case Study, Michigan Journal of International Law

Sonangol-SSI joint venture was the debtor, as per the agreement. The total amount of the debt in terms of the RFI contract amounted to US$ 4.5 billion, in two separate loans of US$ 2 billion each[19], along with US$ 500 million worth of 'complementary actions finance', i.e., finance for projects that were not initially budgeted for, in areas such as water and energy networks, water treatment plants, and new telecommunications lines. China Exim Bank's decision to grant a loan to the Sonangol-SSI joint venture took account of the venture's cash flow. Further, the contract had fixed a daily payment of 10,000 barrels. This indicates that at US$ 70 per barrel (the average crude spot price of January 2010), the total reimbursement would have required the export to China of around 642,857,140 barrels of crude oil.

**Concessional Interest**: In Angola, the loans were provided at concessional interest rates of LIBOR + 1.5 percent, with a grace period of up to 3 years, for the first loan of US$ 2 billion repayable over 17 years; and at the rate of LIBOR + 1.25 percent for the second loan of US$ 2 billion. The interest rates offered to Angola suggest that Chinese investors were either risk tolerant or estimated their investments in Angola to be low risk[20]. The low risk perception would possibly emerge from the direct role in the oil drilling operation, and a confirmed return on the investments in the form of oil supplies from Angola, which minimizes the commercial risk from the operation. This contract also made significant use of guarantees against political risks.

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[19] Note: There isn't adequate data in public domain to ascertain whether China and Angola entered into a second RFI contract for the second loan, or whether they used the same RFI contract by simply extending the initial US$ 2 billion with the same amount.

Source: On the Road to Post Conflict Reconstruction by Contract: The Angola Model, Dunia P. Zongwe, 2010

[20] Ibid.

### 3.3.3 *Lessons from the Chinese Experience*

Overall, RFI experience of countries such as Angola with China has been a win-win scenario for both the parties in the sense that the loan agreements contained better terms for the recipient countries in comparison to their traditional partners that required them to pay higher interest rates. This is a unique and innovative countertrade contract that suits the circumstances of recipient countries.

The RFI mode of contracting has been used in several African countries by Chinese banks, such as China Exim Bank and China Development Bank. Nevertheless, according to a recent study by David Mihalyi, Aisha Adam and Jyhjong Hwang (2020), despite the unique benefits of the RFI model, it is often considered exploitative in nature. First criticism of the model is the severe lack of transparency about the RFI Agreements[21]. The study suggests that information on loan collateral arrangements, mode and schedule of repayment under RFI arrangements by China, including key information like the contract document and key contractual terms are seldom transparent. It was also found that key information about the loan is only revealed once repayment problems emerge[22]. Further, a lack of competition in RFI arrangements, and the way these arrangements are tied to upstream rights of the resource mean that these may significantly expose the borrower country to the risk of completely losing control of their strategic resources. This is because, since the value of RFIs are often very large in proportion to the recipient country's economy, there are possibilities of serious debt problems, particularly since commodity prices are volatile in nature, which could further lead to financial distress in the recipient country. Also, since RFIs are repaid in-kind (through resource), and have collateral attached, restructuring of such debt can be complicated during difficult times, which would in turn heighten the debt distress[23].

[21] Resource-Backed Loans: Pitfalls and Potential, February 2020

[22] Ibid.

[23] Ibid.

## 3.4 India

As mentioned in Chapter 2, India has entered into several types of countertrade arrangements in the past, including barter trade agreement with Iraq, counterpurchase agreement with Malaysia, buyback arrangement with the erstwhile Soviet Union, debt-for-goods arrangement with Vietnam, and clearing arrangement with Iran, among others.

### *3.4.1 Examples of Countertrade in India*

The countertrade model has been followed for a long time in India, which enabled several PSUs to expand their footprint in overseas markets. To foster cooperation for countertrade opportunities, in 2007, BHEL and MMTC signed an MoU to provide impetus to the export of equipment manufactured by BHEL, including power plant equipment in overseas markets using opportunities from countertrade/ bulk buying by MMTC[24].

Another example of India's countertrade arrangement dates to May 2001, which involved a memorandum of understanding signed between the Government of Malaysia (Ministry of Transport) and IRCON International Ltd. As per the MoU, IRCON would execute the project of double tracking of a Railway Line of about 350 Kms length between Ipoh and Padang Besar in Malaysia. The estimated cost of this project was over US$ 1.5 billion. In execution of the contract, the Government of Malaysia and IRCON agreed on a countertrade arrangement involving import of palm oil by the MMTC on mutually agreed terms and conditions[25], while IRCON got its payments through the import proceeds. The arrangement was forged at a time when India was significantly reliant on import of edible oil, amounting to nearly US$ 1.3 billion in FY2001, and accounting for a

[24] BHEL Performance Highlights 2007-08

[25] MoU between Malaysia and Ircon International (Parliament Q&A), Ministry of External Affairs, December 13, 2001

share of 2.6 percent of India's merchandise imports. This quid-pro-quo arrangement guaranteed imports of Malaysian palm oil to meet the domestic needs, while also supporting the internationalisation efforts of the Indian PSU IRCON. A similar deal with IRCON has been made in the recent times as well. During 2019-20, STC signed an MoU with IRCON for a barter trade of Palm Oil from Malaysia, against supply of equipment by IRCON.

India's trade with Iran is another successful example of a countertrade arrangement. India's trade with Iran, which was earlier routed through European banking channels, faced a severe hit after the sanctions imposed by the USA on Iran. In 2011-12, a Rupee-Rial mechanism was put in place whereby up to 45 percent of India's purchases of Iranian crude oil were paid in Rupees, or in exchange for items like rice, wheat and medicines that were not sanctioned by the UN, while the remaining 55 percent in foreign currency was held up with the refiners for lack of an approved payment channel. According to the mechanism agreed by the two countries, Iranian banks would open Vostro accounts with a bank in India, and payments by Indian importers, including oil companies and exporters, will be deposited into these accounts in Indian Rupees. This was routed through UCO Bank initially. Iran could not actually take the Indian Rupee which was parked in Special Non-Resident Rupee Vostro Account — but could use it to buy Indian goods. In 2018, an Iranian private bank Pasargad, opened a branch in Mumbai to facilitate Rupee-Rial trade, and later in 2019, even IDBI Bank was allowed to facilitate the trade.

In 2013, a countertrade arrangement was established between India and Romania. Under this arrangement, exports from India to Romania may precede Romanian imports into India. The Reserve Bank of India (RBI) had also relaxed the conditions for trade transactions to facilitate countertrade between the two countries. Immediately after the establishment of this arrangement in 2013, exports to Romania surged by 38.2 percent in the following year.

Over the recent years, offsets have emerged as an increasingly important method for countertrade in India. As on March 2022, the Ministry of Defence, GOI has signed 57 Offset contracts valued at US$ 13.52 billion to be discharged through Indian Offset Partners[26].

### 3.4.2 Modalities of the Countertrade Policy in India

Indian exporters are permitted to enter into countertrade arrangements, subject to regulations by the RBI. The Indian exporters are required to open an escrow account with the authorised dealer bank (AD Bank) and are subject to certain conditions prescribed under the Master Direction - Export of Goods and Services, FED Master Direction No. 16/2015-16 (RBI/FED/2015-16/11), dated 1 January 2016 (updated as on 8 January 2021). The RBI vide its circular (RBI/2022-2023/90 A.P. (DIR Series) Circular No.10) dated July 11, 2022 has also put in place an additional arrangement for invoicing, payment, and settlement of exports / imports in Indian Rupees. This would facilitate several types of countertrade transactions.

Export or import under countertrade may be carried out through an escrow account, buy-back arrangements, barter trade, or any similar arrangement. The balancing of exports and imports can wholly or partly be in cash, goods, and/or services. Escrow accounts are funded by proceeds of imports made by Indian parties and the funds in these accounts are utilised for payment to them for their exports under countertrade arrangements. Under the escrow account mechanism, the overseas importer or exporter is common while their Indian counterparts may be different.

While countertrade is permitted and regulations are being eased to facilitate such transactions, India does not have an explicit official document to categorically enunciate its countertrade

[26] Report of the Standing Committee on Defence (17th Lok Sabha) March 2022

policy. There are also institutions such as the STC and MMTC for facilitating countertrade transactions agreed by government or government owned entities. Apart from these two, the Project and Equipment Corporation of India Ltd. (PEC) has also been involved in countertrade transactions. Since inception, some of the important functions served by these nodal agencies for countertrade include, among others[27].

I. Identification of sources for countertrade purchases as per the buyer's choice;

II. Liaising between various agencies involved, namely the foreign supplier and the Indian exporters;

III. Providing guidance for quality, competitiveness and standards;

IV. Verifying bank documents to ensure that the amount is received; and

V. Ensuring that there is net additionality of exports for the country through countertrade exports.

In the pre-liberalization period, both STC and MMTC played a significant role as canalising agencies for exports and imports. STC was the canalising agency for import of oilseeds and edible oils, while MMTC was the canalising agency for import of fertilizers, bullion, metals, and export of mica waste and certain types of iron ore. Additionally, these public sector undertakings were also engaged in obtaining countertrade commitments on the strength of their bulk commercial purchasing power, by incorporating a clause in the tender documents specifying the conditions of offset or countertrade transaction. However, post the liberalisation of foreign trade since mid-1991, all export and import items that were earlier canalised through these trading houses were decanalised,

[27] "Counter Trade in India: Some Current Issues" Sage Publication, Raghav Chandra, 1995

which affected their turnover and profitability, and forced them to reorient their entire business profile. Presently, there is no item of export or import which is being canalized exclusively through STC, while MMTC continues as the canalizing agency for exports of iron ore, manganese ore and chrome ore.

The current business profile of STC broadly covers three areas viz. (i) import of items like edible oils, pulses and fertilizers on behalf of the Govt. of India, (ii) business carried out on behalf of business associates on back-to-back basis and (iii) direct buying and selling in items like tea, oilseeds, pulses, etc. Apart from this, STC is also engaged in facilitating India's trade with Iran. STC had exported steel plates to Iranian Gas Engineering & Development Co., Iran during 2014-15 to 2016-17 amounting to ₹ 2873.24 crore under a contract which expired in January 2017. During the year 2019-20, STC exported agro pesticides worth ₹ 11 crore to Iran.

**Offsets Policy in India**

Like several other countries, India has offset guidelines to enable it to leverage its huge arms imports for developing a robust defence equipment production industry in the country. Formal offset guidelines have been part of the Defence Procurement Procedure (DPP) since 2005. The offset policy guidelines, since inception, have undergone several revisions to keep pace with the emerging needs of the Indian industry, with the recent one being the introduction of the Defence Acquisition Procedure (DAP) in September 2020, which has replaced the DPP. India's offset policy aims to leverage the capital acquisitions and technology to develop Indian defence industry through the development of internationally competitive enterprises and enhancement of domestic capacity for Research, Design and Development related to defence products.

Since 2005, offset policy has helped to partially compensate for the massive outflow of India's resources and facilitated transfer of complex technology and added capabilities and capacities to domestic industry through reverse purchase of domestic products and services, and investment in local industry/ R&D.

A notable change in the new DAP is the removal of offset obligations for government-to-government contracts and single-vendor contracts for purchase of military equipment. The DAP 2020 document categorically mentions that offsets will not be applicable in any ab-initio Single Vendor Cases, including procurements based on inter-governmental agreements (IGA)/Foreign Military Sales (FMS), indicating that the scope of the offset policy will now be limited only to those military contracts that involve competitive bidding.

### *3.4.3 Lessons from the Indian Experience*

According to a recent report by the Comptroller and Auditor General (CAG), several offset contracts built into multiple defence deals had not contributed to transfer of high-end military technology into the country to the extent it was expected from them. The report noted that foreign vendors who made several offset commitments to qualify for a contract, could not fulfil their commitments. For instance, top companies like Dassault Aviation and weapons-supplier MBDA were yet to confirm the transfer of technology to the Defence Research and Development Organisation (DRDO), even though it was part of the offset contract. Similarly, the DRDO sought Technical Assistance for the indigenous development of engine (Kaveri) for the Light Combat Aircraft from Dassault Aviation, for which transfer of technology has not yet taken place. India presently lacks a technically competent system to plug the technology and industrial gaps in the defence industry. There is a need to systematically formulate offsets policies and proactively engage in identifying opportunities for utilizing offsets linked with defence acquisitions to organically enhance exports. The offset policy needs to be tweaked for ensuring compliance and providing adequate bargaining power to the Indian government. For example, India needs to reconsider the system of declaring a single L1 winner in competitive bidding, which leaves the government with little or no bargaining power. Instead, the government could identify at least two potential winners and negotiate simultaneously, covering all aspects including offsets and select the best possible deal.

Another important lesson emerges from the challenges faced by domestic industries due to countertrade deals. For instance, in the case of palm oil imports from Malaysia through barter trade arrangement, the Solvent Extractors Association of India has raised concerns that substitution of Indian edible oil with cheaper imported palm oil, particularly from countries like Malaysia or any effort to encourage subsidised imports through public sector undertakings could turn out to be counterproductive for the domestic producers in the industry[28], particularly for those who are engaged in oilseed production. Thus, it is essential to be mindful of the domestic industries' competitiveness which could be hampered through a countertrade deal. A similar issue has also been noted with regard to India's defence offset policies. Given the criticality of business viability and technological complexity in the sector, private sector players, particularly MSMEs could potentially benefit from offsets. An exemption to single vendors from the purview of offset, in addition to the existing exemptions to IGA/FMS, would severely impact the development of private capacities in the defence sector, especially in the MSME sector.

India's countertrade arrangement with Iran can serve as a learning template for future arrangements. The information gap between the Indian and Iranian businesses was one of the impediments for bilateral trade under the arrangement. To address the information gap, an online portal viz. Hind-Iran portal for facilitating trade

[28] Article in the Hindu Business Line - 'Solvent extractors ask govt to stop pampering urban consumers, encourage oilseed farmers' dated November 4, 2020 (https://www.thehindubusinessline.com/markets/commodities/solvent-extractors-ask-govt-to-stop-pampering-urban-consumers-encourage-oil- seed-farmers/article33019297.ece)

between India and Iran was launched as a joint initiative of STC and Douman Queshm, Iran, to enable information dissemination relevant to Indo-Iran Trade, and to provide an e-marketplace for the buyers and sellers of the two countries. The portal aimed to bridge the communication divide which the business communities faced. More such initiatives need to be developed to promote and facilitate countertrade arrangements with other countries as well.

The sustenance of countertrade arrangement also requires concomitant demand for products from both partners. The Indian experience also highlights the possible challenges that may arise due to dip in imports from either side. For example, since May 2019, the Rupee-Rial payment mechanism for exporters is facing severe setback owing to the reduced oil imports from Iran, which has led to loss of funds in the deposit accounts of the Rupee-Rial mechanism put in place for trade with Iran. The banks would be unable to extend support under the special mechanism until the funds are available. Therefore, countertrade mechanisms need to be sustained and altered in a way that ensures the continuity of countertrade transactions between partner countries.

# 4 Countertrade Arrangement Strategy in the Indian Context

The advantages of countertrade arrangements clearly underscore the need for a comprehensive countertrade strategy in the Indian context. The vision of the countertrade strategy could be threefold— (i) for strengthening development financing assistance to partner developing countries, and ensuring sustained capacity to support developmental projects in these countries, especially during global downturns; (ii) to tap lesser explored geographies having potential to trade with India but facing challenges due to scarce forex reserves or challenges in making payments for the trade in foreign currency, and (iii) securing supply of strategic mineral resources where India has significant import dependence.

## 4.1 Objectives of Countertrade Arrangements

i) **Extending Sustainable Development Finance Assistance under India's Developmental Assistance Program:** The GOI provides development financing assistance to sovereign governments of developing countries through its various programmes, such as the Lines of Credit (LOC) programme and the Concessional Financing Scheme (CFS). The GOI also supports development projects in developing countries through programmes such as the Buyers' Credit under National Export Insurance Account (BC-NEIA). The LOC, BC-NEIA and CFS programmes, operated through India Exim Bank, provide concessional financing to developing countries, thereby fostering India's commitment to

South-South cooperation and providing developing countries with resources to fulfil their developmental objectives. Many of the borrower countries benefitting from the developmental assistance, face huge trade deficits and shortage of foreign exchange reserves, and are classified as 'high risk' or 'in debt distress' by the IMF (**Annexure 1**). Several partner countries for India under its various development partnership programmes are already under debt distress, which could potentially lead to default in repayments in the short to medium term. Countertrade may offer a solution for recovery of some of the dues. Countertrade could also facilitate continuation of original repayment schedule, without the need for restructuring. From the perspective of future lending as well, countertrade can be used to secure repayments, and ensure sustainability of the development partnership programmes of India with developing countries.

ii) **Tapping Lesser Explored Geographies Having Potential to Trade but Facing Challenges in Foreign Exchange Availability:** Countertrade arrangement can alleviate currency and/or payment risks for exporters, thereby allowing them to trade with lesser explored geographies. This could especially be used in case of trade with countries that lack foreign exchange availability or have restrictions on outward remittance of foreign currency, but are otherwise acceptable in terms of macroeconomic conditions and debt levels. Such countries present considerable opportunities for Indian exporters. However, banks and financial institutions are reluctant to provide export credit and to deal with export documents or issue e-BRC pertaining to such countries. As banks are wary of facilitating such transactions, trade with these countries is limited. Countertrade arrangements can help establish stronger trade linkages with such countries.

iii) **Securing supply of strategic mineral resources where India has significant import dependence:** In addition to the aforementioned objectives, countertrade could also be utilized for securing various critical minerals and rare earths. India is endowed with a wide array of mineral resources, but some strategic minerals are in limited supply, leading to significant import dependence. The space industry, electronics, information technology and communications, energy sector, electric batteries, nuclear industry, among others, are significantly dependent on such resources. Securing these mineral resources are important for India to meet some of its developmental objectives. For example, India has set a target of achieving an all-electric vehicle fleet by 2030, but it has marginal reserves of minerals such as lithium and cobalt which are critical for development of the industry. The countertrade strategy can meld with India's quest for ensuring access to strategic minerals.

## 4.2 Potential Market and Products for Countertrade

An initial step for the countertrade strategy would be focusing on countries with restrictions on outward remittances of foreign currency, and countries which require development financing but are under debt distress or facing high risk of debt distress. A list of such countries has been identified to start with, and the potential items of import from those countries under a countertrade arrangement have been identified based on the following parameters (**Table 3):**

i. Products identified are in the category of mineral fuels or non-fuel primary commodities such as agricultural products and mineral resources. A long-term countertrade strategy can meet the resource needs of Indian industry, and also engender value chain linkages. [*Ensuring that the import is complementary, and not competing with manufacturing in India*]

ii. India should have existing global imports of at least US$ 1 billion in the identified product categories. [*Evincing adequate domestic demand*]

iii. Identified potential partner countries face restrictions on outward remittances of foreign currency or sanctions, are under debt distress, or have high risk of debt distress.[*Making trade through normal channels difficult or risky*]

iv. Identified potential partner countries export at least US$ 10 million worth of the identified products. [*Indicating wherewithal for participation in a debt- for-goods arrangement*]

***Table 3: List of Potential Countries for Countertrade in Key Imported Products***

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Crude Petroleum oil | 106,406.8 | 10.4 | Russia | 110968.2 |
| | | | Iraq | 73972.7 |
| | | | Libya | 27853.5 |
| | | | Ghana | 3801.9 |
| | | | Chad | 2056.0 |
| | | | Cameroon | 1955.2 |
| | | | Yemen | 1141.3 |
| | | | Congo | 1072.0 |
| | | | Papua New Guinea | 687.6 |
| | | | Sudan | 461.9 |

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Gold (unwrought or semi-manufactured) | 55,783.0 | 14.1 | Russia | 17362.8 |
| | | | Ghana | 3584.6 |
| | | | Guinea | 3418.3 |
| | | | Papua New Guinea | 1646.8 |
| | | | Iraq | 970.9 |
| | | | Nicaragua | 867.7 |
| | | | Tajikistan | 661.0 |
| | | | Lao PDR | 597.1 |
| | | | Mauritania | 323.9 |
| | | | Libya | 100.0 |
| Coal | 25,710.2 | 17.3 | Russia | 17583.7 |
| | | | Mozambique | 1079.3 |
| | | | Afghanistan | 111.6 |
| | | | Venezuela | 42.0 |
| | | | Iran | 14.3 |
| Natural Gas | 24,044.6 | 5.4 | Russia | 8815.4 |
| | | | Papua New Guinea | 4568.6 |
| | | | Libya | 978.0 |
| | | | Iran | 477.6 |
| | | | Mozambique | 292.8 |
| | | | Iraq | 117.3 |
| Palm oil and its fractions | 9,568.5 | 19.2 | Papua New Guinea | 783.9 |
| | | | Djibouti | 182.0 |
| | | | Kenya | 130.6 |
| | | | Nicaragua | 90.0 |
| | | | Ghana | 73.8 |

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Nitrogenous fertilisers | 4,361.3 | 11.5 | Russia | 4472.0 |
| | | | Iran | 128.1 |
| | | | Libya | 79.4 |
| | | | Venezuela | 71.5 |
| | | | Mozambique | 33.5 |
| | | | Zambia | 17.6 |
| Ferrous waste and scrap | 3,978.2 | 7.1 | Russia | 1790.1 |
| | | | Venezuela | 633.9 |
| | | | Libya | 376.6 |
| | | | Lebanon | 177.6 |
| | | | Yemen | 93.6 |
| | | | Iran | 37.6 |
| | | | Afghanistan | 30.4 |
| | | | Nicaragua | 24.4 |
| | | | Mozambique | 10.6 |
| Waste and scrap of aluminium | 3,141.3 | 15.4 | Libya | 76.9 |
| | | | Lebanon | 37.6 |
| | | | Iran | 30.4 |
| | | | Yemen | 21.0 |
| | | | Iraq | 18.0 |
| | | | Venezuela | 15.5 |
| | | | Ghana | 15.2 |

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Copper ores and concentrates | 2,523.9 | 2.9 | Russia | 1250.9 |
| | | | Papua New Guinea | 884.4 |
| | | | Congo DR | 601.7 |
| | | | Lao PDR | 308.1 |
| | | | Mauritania | 257.7 |
| | | | Eritrea | 179.6 |
| | | | Tajikistan | 50.4 |
| | | | Zambia | 41.6 |
| Petroleum coke, bitumen and other residues of petroleum oil | 2,379.4 | 10.1 | Iraq | 457.0 |
| | | | Russia | 441.6 |
| | | | Iran | 116.9 |
| | | | Venezuela | 28.8 |
| | | | Côte d'Ivoire | 25.4 |
| Waste and scraps of paper or paperboard (excluding paper wool) | 1,789.4 | 16.4 | Iraq | 53.0 |
| | | | Sri Lanka | 37.4 |
| | | | Russia | 25.2 |

| Product | India’s Imports in 2021 (US$ Mn) | India’s Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Dried leguminous vegetables | 2,102.3 | 16.4 | Russia | 639.5 |
| | | | Ethiopia | 188.4 |
| | | | Mozambique | 152.8 |
| | | | Sudan | 93.7 |
| | | | Nicaragua | 88.2 |
| | | | Kenya | 75.2 |
| | | | Afghanistan | 50.2 |
| | | | Malawi | 42.8 |
| | | | Djibouti | 10.3 |
| | | | Venezuela | 10.2 |
| Silver (unwrought or semi-manufactured) | 2,111.1 | 6 | Russia | 743.2 |
| | | | Papua New Guinea | 45.3 |
| | | | Nicaragua | 22.2 |
| Diamonds (unmounted) | 26,289.3 | 23.7 | Russia | 4541.4 |
| | | | Sri Lanka | 124.7 |
| | | | Zimbabwe | 69.9 |
| | | | Congo DR | 67.4 |
| | | | Lebanon | 11.5 |
| Copper (unrefined) | 1,721.1 | 12.5 | Zambia | 6225.2 |
| | | | Congo DR | 687.5 |

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Waste and scrap of copper | 1,524.5 | 4.2 | Lebanon | 146.4 |
| | | | Libya | 143.0 |
| | | | Iran | 121.1 |
| | | | Venezuela | 88.1 |
| | | | Ghana | 80.2 |
| | | | Yemen | 43.8 |
| | | | Kenya | 42.3 |
| | | | Sudan | 23.4 |
| | | | Cuba | 18.4 |
| | | | Congo, DR | 17.9 |
| Other nuts (excluding coconuts, Brazil nuts) | 1,345.7 | 7.4 | Iran | 819.7 |
| | | | Afghanistan | 119.1 |
| | | | Kenya | 96.5 |
| | | | Sri Lanka | 39.9 |
| | | | Syria | 37.6 |
| | | | Malawi | 33.0 |
| | | | Russia | 32.1 |
| | | | Zimbabwe | 15.0 |
| | | | Mozambique | 12.0 |
| Natural calcium phosphates and natural aluminium calcium phosphates | 1,199.5 | 36.4 | Russia | 292.6 |
| | | | Syria | 39.0 |

| Product | India's Imports in 2021 (US$ Mn) | India's Share in World Imports of the Product 2021 (%) | Potential Countries for Countertrade | Exports of the Product in 2021 (US$ Mn) |
|---|---|---|---|---|
| Manganese ores and concentrates | 1,143.1 | 15.3 | Ghana | 298.1 |
| | | | Côte d'Ivoire | 124.2 |
| | | | Zambia | 10.4 |
| Rare earth metals | 87.9 | 7.4 | Russia | 34.3 |

Source: Data for trade from ITC TradeMap, India Exim Bank Research

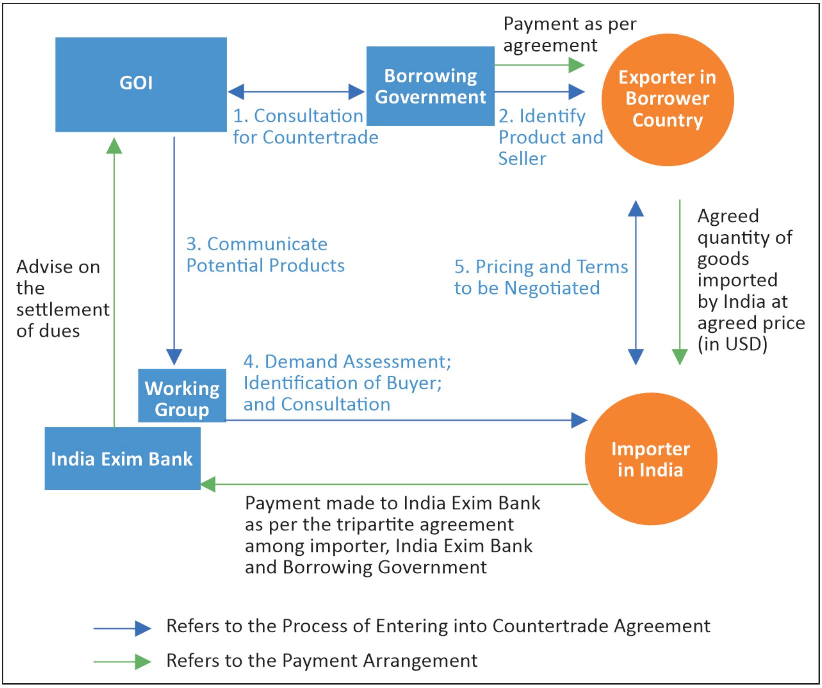
Besides these, there may be some countries that have adequate reserves of critical mineral resources, but these resources may not be developed enough to be exported. Such countries may also be targeted. A comprehensive list of such potential partners with an illustrative list of mineral reserves have been identified and presented in **Annexure 2**.

## 4.3 Debt-for-Goods: Trade Model

### *4.3.1 Process Flow*

Countertrade could serve as an additional security for medium to long term financing facilities extended under the Government of India's development partnership programmes. It can serve as a fall back option for repayments and recovery. With respect to the debt-for-goods model, the blueprint for the arrangement should foster the values ensconced in India's development partnership. The Lines of Credit is a demand responsive programme, and the countertrade arrangement should embody its ethos of non-intrusion, mutual benefit and collective development. For both existing and new LOCs, Indian Embassies/Missions could discuss the prospect for countertrade arrangement with the borrowing governments, and seek the prospective list of products which could be traded under the arrangement. The sellers of these products would also be identified by the borrowing governments (**Figure 13**).

***Figure 13: Proposed Process Flow under India's Development Assistance Programmes like LOC***




In case of other countries with restrictions in outward remittances of foreign currency as well, the identification of products for countertrade should be through mutual consultation.

After the identification of products by the government of partner country, the working group could assess the demand for the products, and consult buyers of the product in India and abroad for engagement in the countertrade. The buyers could be:

- Domestic trading houses like the MMTC and the STC.
- International trading houses like Olam, Cargill, COFCO and Wilmar
- Public sector units.

- Large private sector entities with sizeable demand for the product.
- Agencies which could engage in commodity auction in the domestic market.

Some of the Indian companies importing select potential products have been identified at **Annexure 3**. For countertrade arrangement with international trading houses as buyers, a switch trading model can be adopted.

To encourage participation in the transaction, the GOI could provide duty waivers for imports by the buyers in India, on case by case basis. Involvement of PSUs could also be encouraged by the GOI.

The pricing could be mutually agreed by the buyer and seller of the product, and should be reflective of the international prices at the time of purchase. The pricing could be indexed to the price on recognized commodity exchanges, and could be monitored for any marked deviations. The quantum of imports should also be in consonance with the debt obligations of the borrowing government. Whenever the borrowing countries are facing severe financial crunch (for example in situations during recession or pandemic), bulk imports could be adopted as one-time solution, and in other cases periodic trade could be used as the solution for debt repayments. In case the nature of the goods and demand from the buyer require large quantum of imports, bulk imports can be made by the Indian buyer and the Bank can consider remitting the excess recovery to the borrower. Performance risk in the transaction can be addressed through third party certifications. Approval from the RBI under FEMA may be required for such arrangement.

There may be a possibility that the goods identified for countertrade by the borrowing government may not have sufficient demand in India. In such a scenario, a hybrid of the switch trade model and debt-for-goods model can be adopted for countertrade. An international trading house such as Olam, Cargill, COFCO and Wilmar, can be engaged to serve as a switch trader, and the borrowing government could sell the negotiated value of goods to the switch trader. The payment for the goods can be credited to India Exim Bank by the switch trader, which would be utilized to service the debt of the borrowing country.

## 4.4 Debt-for-Goods: Investment Model

### *4.4.1 Process Flow*

Developing countries often lack the capital, technology and management skills to leverage their mineral resources, and offer the assets in their extractive industries to foreign companies. In this regard, the borrower countries that are facing high risk of debt distress could consider repayments through a resource for infrastructure model, explained in the earlier chapter. In assets which are offered for exploration and mining by borrowing governments or government owned agencies, prospective Indian companies can be approached by the GOI or India Exim Bank for considering the proposal. Based on the analysis of the feasibility report, any Indian company can consider acquisition of the assets, and enter into a negotiation with the borrowing government. Upon negotiations, a tripartite agreement can be finalised for a debt-for-goods arrangement through the investment route. The license fee cost of acquisition/loyalty/revenue share payable by the Indian entity to the host government could support repayments.

In the extractive industries, host countries often have concerns associated with unequal bargaining strengths, rent-sharing, transfer pricing practices, and environmental and social costs. Therefore, the process of repayments through the investment route, as in the case of trade route, should be based on a mutually consultative process. Further, for the arrangement to be viewed more favourably, the terms of the acquisition should ensure long-term and sustainable development gains for the local community from the extractive activities. For example, in the agreement between China and the DR Congo for development of infrastructure in return for copper and cobalt concessions, some terms and conditions are included which ensured positive spillover effect on the domestic economy. The agreement stipulated that only one in five workers can be Chinese. Further, in each of the projects, 0.5 percent of the investment had to be spent on transfer of technology and on training Congolese staff, 1 percent had to be spent on social activities in the region, and 3 percent to cover environmental costs. Apart from this, 10 to 12 percent of the work was to be subcontracted to Congolese companies.

## 4.5 Regulations for Countertrade

As per RBI Master Circular on Exports of Goods and Services, notified vide Notification No. FEMA 23/2000-RB dated May 3, 2000, amended from time to time, Countertrade proposals involving adjustment of value of goods imported into India against value of goods exported from India in terms of an arrangement voluntarily entered into between the Indian party and the overseas party through an Escrow Account opened in India in USD will be considered by the RBI subject to following conditions:

(i) All imports and exports under the arrangement should be at international prices in conformity with the Foreign Trade Policy and Foreign Exchange Management Act, 1999 and the Rules and Regulations made there under.

(ii) No interest will be payable on balances standing to the credit of the Escrow Account but the funds temporarily rendered surplus may be held in a short-term deposit up to a total period of three months in a year (i.e., in a block of 12 months) and the banks may pay interest at the applicable rate.

(iii) No fund based/or non-fund based facilities would be permitted against the balances in the Escrow Account.

(iv) Application for permission for opening an Escrow Account may be made by the overseas exporter / organisation through his / their AD Category – I bank to the Regional Office concerned of the Reserve Bank.

### *4.5.1 International Trade Settlement in Indian Rupees*

In addition to the aforementioned regulations for countertrade, the RBI vide its circular dated July 11, 2022 (RBI/2022-2023/90 A.P. (DIR Series) Circular No.10) has put in place an additional arrangement for invoicing, payment, and settlement of exports / imports in Indian Rupee (INR), with a view to promote trade growth, particularly exports. Under this arrangement, the bank of a partner country can open Special INR VOSTRO account with AD Banks in India. The AD banks shall require prior approval from the Foreign Exchange Department of the RBI, before putting this mechanism in place.

As per the notification by the RBI, the broad framework for cross-border trade transactions in INR under Foreign Exchange Management Act, 1999 (FEMA) includes the following :

i) **Invoicing**: All exports and imports under the arrangement may be denominated and invoiced in INR.

ii) **Exchange Rate**: Exchange rate between the currencies of the two trading partner countries may be market determined.

iii) **Settlement**: The settlement of trade transactions under the arrangement shall take place in INR in accordance with the procedure set by the RBI.

In order to allow settlement of international trade transactions through this arrangement, the following payment modalities have been allowed by the RBI:

(i) Indian importers undertaking imports through this mechanism shall make payment in INR which shall be credited into the

Special Vostro account of the correspondent bank of the partner country, against the invoices for the supply of goods or services from the overseas seller /supplier.

(ii) Indian exporters, undertaking exports of goods and services through this mechanism, shall be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country.

Until now, settlement in Indian Rupee was possible for trade with only select countries like Bhutan and Nepal, and with Iran under a special bilateral arrangement. The additional arrangement by the RBI paves way for bilateral arrangements with like-minded countries for settlement of trade in local currency under a clearing arrangement model of countertrade. It is noteworthy that India has, in the past, accepted and made payments in INR for its trade with several countries including Russia, Nepal, Bangladesh, a few east European countries, and Iran. However, there were several issues with these previous arrangements by India for Rupee trade transactions, which impeded greater utilization of INR in trade settlements.

One of these issues was the preference of partner countries towards trade in the reserve currencies. In the post-Cold War era of the 1990s, globalization gained fervour, and countries increasingly preferred international trade in reserve currencies and worked on multilateral trade and payment systems, which afforded transparency and economic efficiency to all stakeholders. Moreover, under previous arrangements, channelling of surplus Rupee under the clearing arrangements into Rupee assets were not allowed.

Based on past experiences, the new mechanism introduced by the RBI tries to address some of the challenges encountered in previous Rupee trading arrangement. For instance, the RBI, under the new arrangement, has now permitted the Rupee surplus balance held in the Special Vostro Accounts to be used in capital and current account transactions in accordance with mutual agreement, and in terms of extant guidelines and prescribed limits, subject to FEMA and similar statutory provision. Besides, the RBI in its ‘Payment Vision 2025’ document has also stated about exploring an alternative messaging channel for faster, convenient and cost-effective direct payments with other jurisdications. This would reduce dependence on existing systems that are prone to sanctions from the West. This is in line with the initiatives undertaken by countries like China and Russia, who are also actively using alternative systems to SWIFT. China’s Cross-Border Interbank Payment System (CIPS) processes payments in Chinese yuan and is being viewed as a potential replacement of SWIFT for China. Similarly, Russia’s Rouble-based payment system viz. the System for Transfer of Financial Messages (SPFS) is being considered as another alternative for SWIFT.

Even though this mechanism is not likely to replace the use of reserve currency for India’s trade settlements in the near future, the mechanism provides a promising alternative for increasing India’s trade through countertrade with a broader range of countries with whom trade through normal channels is difficult. The new mechanism would help sustain and strengthen bilateral trade ties of India with sanction-hit countries and countries with balance of payment difficulties. It would also strengthen home currency for optimum benefit to the exporters/ importers. Moreover, this mechanism could also be utilized for securing supply of strategic resources through bilateral arrangements with resource-rich countries that are facing restrictions on outward remittances of foreign currency or facing high risk of debt distress. This mechanism is also advantageous for partner countries, as they could enhance their bilateral trade with India and meet their import demand without depletion of scarce forex resources.

Notwithstanding this recent initiative by the RBI, the regulatory framework does not provide an outline to undertake Debt-for-Goods transactions and the lack of regulatory clarity is a hurdle for engaging in such countertrade activities. For every such transactions, specific approvals from RBI will be required. Moreover, for the investment model as well, approvals will be required from the RBI and facilitation by banks/ financial institution in India.

## 4.6 Way Ahead

Countertrade is a specialized activity which would require expertise in commercial research, cross-border commodity trade, procurement law/policies, contract negotiations, international documentation, finance, insurance etc. A working group can be created, by bringing together a multi-disciplinary team, including India Exim Bank, for undertaking countertrade related business in the nature of debt-for-goods. Public sector units, especially trading houses such as the MMTC and the STC could also explore opportunities for countertrade through other aforementioned models, especially in countries where it makes economic sense to engage in such arrangements.

Countertrade could be an additional/alternative mechanism for providing payment and settlement solutions when there exist challenges to open trade due to reasons delineated in the chapters. It can also help sustain the development partnerships with countries in debt-distress or at high risk of debt distress, which could be a win-win for both India and partner countries.

India has entered into several types of countertrade arrangements in the past, as mentioned in Chapter 3. However, in spite of several countertrade transactions over the years, there is no definitive policy for countertrade in India. As noted earlier, 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. Currently, India is also considering a government-to-government deal for a barter trade arrangement with Indonesia, for exports of wheat from India in exchange for palm oil from Indonesia, to ensure adequate supply of palm oil in India in the wake of rising global prices of palm oil.

The recent economic sanctions on Russia as also the mounting foreign exchange difficulties faced by partner countries like Sri Lanka, have led the RBI to recently put in place an arrangement for invoicing, payment, and settlement of export/ import in Indian Rupees, which would facilitate several types of countertrade transactions. The new mechanism would help sustain and strengthen bilateral trade ties of India with countries facing forex restrictions and balance of payment difficulties. Moreover, this mechanism could also be utilized for securing supply of strategic resources through bilateral arrangements with resource-rich countries that are facing restrictions on outward remittances of foreign currency or facing high risk of debt distress. The mechanism is also advantageous for partner countries, as they could enhance their bilateral trade with India and meet their import demand without depletion of scarce forex resources. The new arrangement also provides a regulatory structure for the Rupee-Rouble trade framework, on which the RBI is working with its Russian counterpart for sustaining bilateral trade and banking operations between the two countries.

Rather than piecemeal initiatives that India has undertaken over the years for countertrade with partner countries, India could consider formulating a comprehensive policy for operationalisation of countertrade in India. Such a policy could be an umbrella arrangement, with appropriate mechanisms for different countertrade models discussed earlier, including a local currency trade model.

To that end, an essential first step would be to conceptualize a countertrade strategy for India. For this purpose, a Task Force may be set up with representation from Ministry of Finance, Ministry of External Affairs, Ministry of Commerce and Industry, Directorate General of Foreign Trade, Reserve Bank of India, Commercial banks such as SBI and UCO Bank, Development Financial Institutions such as India Exim Bank, and Public Sector Trading Companies. Based on the recommendations of the Task Force, a roadmap could be worked out to explore the possibilities for countertrade with a few identified countries, to begin with, and a comprehensive countertrade policy can be designed. The roadmap should also focus on creating an enabling environment for countertrade mechanisms that can be driven by non-governmental agencies and private enterprises. It should also consider the possibility of switch trading through participation of international private trading houses.

Debt-for-goods model, in particular, may be explored by the Task Force, for using trade in resources as an additional security for medium to long term financing facilities. Based on the repayment history under the GOI's development partnership programmes, the Task Force could examine the existing and new LOCs to explore opportunities under countertrade. The Ministry of External Affairs, Government of India, could then discuss with the respective borrowing Governments on the repayments through countertrade, based on the recommendations of the Task Force. The identification of products for countertrade could be through mutual consultation, as per the demand-driven, non-prescriptive ethos of India's development partnership programmes. India Exim Bank can act as an Empowered Institution for operationalising countertrade subject to the approval of the GOI and the RBI.

There may also be a possibility that the goods identified for countertrade by the borrowing government may not have sufficient demand in India. In such a scenario, a hybrid of the switch trade model and debt-for-goods model can be adopted for countertrade. An international trading house can be engaged to serve as a switch trader, and the borrowing government could sell the negotiated value of goods to the switch trader. The payment for the goods could be credited to India Exim Bank by the switch trader, which would be utilized to service the debt of the borrowing country.

The terms of payment in countertrade transactions depend on the structure of the deal, and the participation of banks in such transactions may be totally different compared to ordinary transactions where payment is in currency. In real barter trade situations, only a designated clearing account may be needed to register the value of the transactions and the net balance of the flow of goods. When it comes to other forms of countertrade, banks often have a more central role, often through the use of L/Cs, all of them being structured to come into force simultaneously when all other arrangements are in place and approved by the individual trading partners. But thereafter, they could either be handled as one deal with separate payment flows or as completely individual transactions, with each L/C being settled separately.

The seller seldom acts alone in countertrade, but normally through or in cooperation with specialized trading houses or international banks that have the expertise to operationalise the transactions. There are also a number of domestic or regional countertrade associations offering the same services, but the trading parties are generally advised to check with their bank or their trade council or export organization to find a partner that has the relevant knowledge and reputation.

Apart from these, a few areas for consideration before entering into a countertrade agreement include legal implications, time frame involved in the transaction, insurance facility, among others. The regulations pertaining to repatriation of money and exports of goods may also need to be reviewed and streamlined for undertaking countertrade activities. A formal institutional framework may also be worked out, along with formal countertrade laws in lines with the United Nations Commission on International Trade Law (UNCITRAL) guidelines.

# Annexure 1 Countries Classified as per their Risk of Debt Distress by the IMF as on March 31, 2022

| Country | Date | Distress[1/] |
|---|---|---|
| Afghanistan | 6/28/21 | High |
| Bangladesh | 3/7/22 | Low |
| Benin | 1/19/21 | Moderate |
| Bhutan | 10/30/18 | Moderate |
| Burkina Faso | 11/18/20 | Moderate |
| Burundi | 11/12/21 | High |
| Cambodia | 12/9/21 | Low |
| Cameroon[3/] | 3/11/22 | High |
| Cabo Verde[3/] | 11/10/20 | High |
| Central African Republic | 2/1/21 | High |
| Chad | 12/15/21 | In debt distress |
| Comoros | 10/29/21 | High |
| Congo, DR | 1/5/22 | Moderate |
| Congo, Republic of[3/] | 2/17/22 | In debt distress |
| Côte d'Ivoire | 8/13/21 | Moderate |
| Djibouti | 5/12/20 | High |

| Country | Date | Distress[1/] |
|---|---|---|
| Dominica[3/] | 2/14/22 | High |
| Eritrea | … | In debt distress |
| Ethiopia | 5/6/20 | High |
| Gambia, The | 12/10/21 | High |
| Ghana | 7/23/21 | High |
| Grenada[3/] | 5/13/20 | In debt distress |
| Guinea | 7/6/21 | Moderate |
| Guinea-Bissau | 7/30/21 | High |
| Guyana[4/] | 9/17/19 | Moderate |
| Haiti | 4/20/20 | High |
| Honduras | 9/14/21 | Low |
| Kenya | 12/22/21 | High |
| Kiribati | 1/24/19 | High |
| Kyrgyz Republic | 8/2/21 | Moderate |
| Lao P.D.R. | 8/8/19 | High |
| Lesotho | 7/30/20 | Moderate |
| Liberia | 1/8/21 | Moderate |
| Madagascar | 3/16/22 | Moderate |
| Malawi | 12/20/21 | High |
| Maldives | 4/23/20 | High |
| Mali | 3/30/21 | Moderate |
| Marshall Islands | 5/27/21 | High |
| Mauritania | 9/16/20 | High |
| Micronesia | 11/1/21 | High |
| Moldova[3/] | 1/4/22 | Low |

| Country | Date | Distress[1/] |
|---|---|---|
| Mozambique | 4/29/20 | In debt distress |
| Myanmar | 1/28/21 | Low |
| Nepal | 1/27/22 | Low |
| Nicaragua | 11/20/20 | Moderate |
| Niger | 12/20/21 | Moderate |
| Papua New Guinea[3/] | 6/26/20 | High |
| Rwanda | 1/13/22 | Moderate |
| Samoa | 3/19/21 | High |
| São Tomé and Príncipe | 9/8/21 | In debt distress |
| Senegal | 1/14/22 | Moderate |
| Sierra Leone | 8/13/21 | High |
| Solomon Islands | 1/21/22 | Moderate |
| Somalia | 11/30/20 | In debt distress |
| South Sudan | 4/2/21 | High |
| St. Lucia [3/ 5/] | 9/9/11 | Moderate |
| St. Vincent and the Grenadines [3/] | 7/19/21 | High |
| Sudan | 7/1/21 | In debt distress |
| Tajikistan | 2/18/22 | High |
| Tanzania | 9/17/21 | Moderate |
| Timor Leste[3/] | 7/14/21 | Moderate |
| Togo | 4/16/20 | Moderate |
| Tonga | 2/1/21 | High |
| Tuvalu | 8/4/21 | High |
| Uganda | 3/15/22 | Moderate |
| Uzbekistan[3/] | 4/26/21 | Low |

| Country | Date | Distress[1/] |
|---|---|---|
| Vanuatu | 9/14/21 | Moderate |
| Yemen, Republic of | 9/24/14 | Moderate |
| Zambia | 8/2/19 | High |
| Zimbabwe[3/] | 3/26/20 | In debt distress |

Notes: 1/ As of March 31, 2022 and based on the most recently published data, 9 countries are in debt distress, 30 countries are at high risk, 24 countries are at moderate risk, and 7 countries are at low risk of debt distress.

2/ May reflect usual lags in the publication. Includes DSAs presented to the Executive Board on lapse of time basis.

3/ PRGT-eligible IDA-blend countries.

4/ Non PRGT-eligible country using the LIC DSF.

5/ Market-access countries (MACs) DSA has been completed and published within the past 24 months.

Source: IMF

Annexure 2

# Illustrative List of Minerals produced by Potential Countries

| Country | Minerals Produced |
|---|---|
| Libya | Gypsum, Salt, **Sulphur, Natural Gas, Petroleum** |
| Iran | Iron, Chromium, Manganese, Molybdenum, Titanium, **Aluminium**, Antimony, Arsenic, Bauxite, **Copper, Lead, Mercury, Zinc,** Gold, Silver, Baryte, Bentonite, Boron, Diatomite, Feldspar, Fluorspar, Gypsum, Kaolin, Magnesite, Perlite, Phosphates, Potash, Salt, **Sulphur**, Talc, Vermiculite, **Steam Coal, Coking Coal, Natural Gas, Petroleum** |
| Venezuela | Iron, **Nickel, Aluminium,** Bauxite, Gold, Diamond, Feldspar, Phosphates, Salt, Sulphur, **Steam Coal, Natural Gas,** Oil sands, **Petroleum** |
| Zambia | Cobalt, Manganese, **Beryllium, Copper,** Gold, **Sulphur, Steam Coal** |
| Republic of Congo | Iron, **Copper, Zinc,** Gold, Diamond, **Natural Gas, Petroleum** |
| Mozambique | **Niobium, Tantalum,** Titanium, **Aluminium**, Bauxite, **Beryllium**, Gold, Bentonite, Diatomite, **Graphite**, Salt, Zircon, **Steam Coal, Coking Coal, Natural Gas, Petroleum** |
| Tanzania | Bauxite, **Copper**, Tin, Gold, Silver, Diamonds, Gypsum, Kaolin, Phosphates, **Salt, Steam Coal, Natural Gas** |
| Belarus | Potash, Salt, **Natural Gas, Petroleum** |
| Sri Lanka | Titanium, Feldspar, **Graphite**, Kaolin, Phosphates, Salt, Zircon |
| Sudan | Iron, Chromium, Manganese, Gold, Silver, Feldspar, Gypsum, Kaolin, Salt, Talc, **Petroleum** |
| Lebanon | Salt |

| Country | Minerals Produced |
|---|---|
| DR Congo | **Cobalt**, Manganese, **Niobium, Tantalum, Tungsten, Copper, Lead, Tin, Zinc,** Gold, Silver, Diamond, **Petroleum** |
| Yemen | Gypsum, Salt, **Natural Gas, Petroleum** |
| Chad | **Petroleum** |
| Nicaragua | Gold, Silver, Gypsum, Salt |
| Syria | Gypsum, Phosphates, Salt, **Natural Gas, Petroleum** |
| Somalia | Gypsum |
| Fiji | Bauxite, Gold, Silver |
| Ivory Coast | Diamond, Gold, Silver, Bauxite, **Nickel**, Manganese ore, **Petroleum, Natural Gas, Rare earths** |
| Djibouti | Salt, perlite |
| Central African Republic | Gold, Diamond |
| Zimbabwe | Chromium, **Cobalt, Nickel, Copper, Lithium,** Gold, Palladium, **Platinum**, Rhodium, Diamond, Graphite, Vermiculite, **Steam Coal, Coking Coal** |
| Cuba | Chromium, **Cobalt, Nickel, Lead, Zinc,** Bentonite, Feldspar, Gypsum, Kaolin, Salt, **Natural Gas, Petroleum** |
| Eritrea | **Copper, Zinc,** Gold, Silver, Gypsum, Kaolin, Salt |
| Burundi | **Niobium, Tantalum, Tungsten, Rare Earths, Tin,** Gold |
| Madagascar | Chromium, Cobalt, Gold, Graphite, Mica, **Nickel, Rare Earths** |
| Myanmar | Barytes, **Rare Earths, Coal, Copper,** Gypsum, Crude Steel, Ferro-alloys, lead, manganese ore, **Nickel, petroleum, Natural Gas,** Salt, Tin, Tungsten, Zinc |
| Tajikistan | **Aluminium, Coal, Rare Earths,** Gold, Gypsum, Lead, Mercury, Molybdenum, **Petroleum**, Salt, Silver, Zinc |
| Nigeria | Iron, Manganese, Niobium, Tantalum, Tungsten, Beryllium, Lead, Lithium, Tin, Zinc, Gold, Baryte, Feldspar, Gypsum, Kaolin, Talc, Zircon, **Steam Coal, Natural Gas, Petroleum** |

Note: Items in bold are the strategic minerals for India.

Source: BGS (World Mineral Production), the USGS (Minerals Yearbook), and India Exim Bank Research

Annexure 3

# Indicative List of Buyers in India

***Trading Companies***

- MMTC Ltd.
- STC Ltd.
- Trafigura Ltd.

***Crude Oil***

- Hindustan Petroleum Corporation Ltd.
- Indian Oil Corporation
- Bharat Petroleum Corporation Ltd.

***Agricultural Commodities***

- Food Corporation of India Ltd.
- National Agricultural Cooperative Marketing Federation of India Ltd
- Advantage Overseas Pvt. Ltd.
- Olam India

***Urea/ Fertilizers***

- India Potash Ltd.

***Gold***

- PEC Ltd.

***Rough Diamonds***

- Diamond India Ltd.

***Coal***

- Adani Enterprises Ltd.

***Copper***

- Hindalco Sterlite Copper

India
Exim
Bank

Centre One Building, 21st Floor, World Trade Centre Complex,
Cuffe Parade, Mumbai - 400 005. Ph.: +91 22 22172600 Fax: +91 22 22182572
E-mail: ccg@eximbankindia.in
Website: www.eximbankindia.in | www.eximmitra.in
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