L. CREȚU

Synthetic Indexes for Estimating Foreign Trade Profitableness

The author suggests the use of a new index to characterize foreign trade profitableness, that is the profitableness per unit of foreign trade. Based on the elements which contribute to the computation of this index, two more indexes are proposed. The economic significance and the benefits resulting from the use of these indexes are emphasized.

On the background of the increasingly wide participation of our country in the international trade exchanges, the most accurate ascertainment of foreign trade profitableness is becoming an imperative requirement.

This essentially implies a definition of the concept of *foreign trade profitableness*, greatly argued upon during the last decade in the specialty literature of socialist countries, considering the difficulties of analyzing the ratio of revenues and costs not within a sole country but in international context. We will neither go into the details of the various opinions on this problem, nor will we argue by producing our own opinion. In this paper we will merely state our views on this problem, as the indexes we are suggesting are based on this very concept. In our opinion, in defining the contents of the concept of foreign trade profitableness one cannot omit the fact that it represents a value category and that it is the synthetic expression of the result of two connected activities: export and import. We therefore consider that *foreign trade profitableness has to express* in monetary terms *the difference between the benefits achieved by the national economy through the import of commodities and the expenditures effected for the export of commodities*. The difficulty of expressing the size of this profitableness originates, on the one hand, from the fact that the computation includes four different kinds of prices — the internal and external prices of export goods, as well as the external and internal prices of Import goods — and, on the other hand, from the fact that the export vaiue — expressed in terms of external or internal prices — very seldom, and

practically never, agrees with the import value. In our opinion, these difficulties may be overcome, thanks to the following index:

$$P_{ut} = \frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} \text{ (lei)} \tag{1}$$

where

P_{ut} = foreign trade profitableness per 1 leu-currency (the index could possibly be desginated as *profitableness per unit of foreign trade*).

$\bar{R}_e^{exp}$ and $\bar{R}_e^{imp}$ = the average return rate * of export and import, respectively.

The value of this ratio indicates if national economy has gained or has lost as a result of its foreign trade activity, and the amount of the positive or negative result for one leu-currency. Thus, if

$$\frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} < 1, \tag{1.1}$$

---

* We recall that the present computation methodology of the average return rate is as follows:

a) For the export

$$\bar{R}_e^{exp} = \frac{\sum_{i=1}^{n} (P_{p_i} + A_{e_i})}{\sum_{i=1}^{n} C_i}$$

where

P_{p_i} = Internal purchasing price in lei, for the commodity i, consisting of the wholesale price of the enterprise (i.e. cost price + profit) and the additional costs (which express the payment for the additional operations performed as compared to the State Standard and the internal delivery conditions in order to satisfy the requirements of foreign customers).

A_{e_i} = Exporting additional costs, in lei, for commodity i, consisting mainly of the transport expenses from the producer to the exporting State frontiers and the foreign trade organisation profit.

C_i = External selling price f. o. b. of commodity i, in lei-currency (the prices in terms of leicurrency are obtained by multiplying external prices in foreign currency with the official rate of the corresponding foreign currency).

b) For the import

$$\bar{R}_e^{imp} = \frac{\sum_{i=1}^{n} P_{s_i}}{\sum_{i=1}^{n} (P_{p_i} + E_{c_i})}$$

where:

P_{s_i} = Internal selling price, in lei, for the commodity i, consisting of the enterprise wholesale price for the imported means of production or of the wholesale price of the industry (i.e. the enterprise wholesale price + the tax on goods circulation) for the imported consumer goods.

P_{p_i} = The external purchasing price f. o. b. in lei-currency, of commodity i.

E_{c_i} = The external transport expenses for the commodity i up to the importing country's frontiers.

foreign trade is profitable, because in exchange of one leu-currency, a quantity of commodities is imported, whose internal value is exceeding the value of export commodities sold for 1 leu-currency.

$$\frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} = 1 \tag{1.2}$$

foreign trade is balanced, the national economy neither gains, nor loses — in monetary terms — as a result of the import — export operations.

$$\frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} > 1, \tag{1.3}$$

Foreign trade is unprofitable *, as the internal costs per one leu-currency, exceed the internal revenues obtained by importing goods equivalent to one leu-currency.

Similar to the computation of products profitableness in internal production, we may consider the average return rate of export as the *cost price per unit of import* and the average return rate of import as *the unity price of import.* In this case the foreign trade profitableness rate, r, can be expressed as:

$$r = \frac{\bar{R}_e^{imp} - \bar{R}_e^{exp}}{\bar{R}_e^{imp}} \times 100 \text{ (per cent)} \tag{2}$$

As we are above all interested in the amount of goods we can purchase (according to the national economy needs provided for in the State Plan) in exchange of exported goods, the net revenue or loss has, in our opinion, to be referred to the average return rate of import, and not to the average return rate of export.

In order to ascertain the volume of the net revenue or of the loss, for the entire economy, resulting from foreign trade operations, the product of r and the total value of export, V^{exp}, in lei, (the index characterizing the total exporting value) is computed. Thus:

$$P_{ft} = V^{exp} \times \frac{r}{100} \text{ (lei)} \tag{3}$$

This index is synthetically expressing the amount of the net revenue (or loss) achieved by the national economy in the case of a balanced balance of trade, that is when the value of import, in terms of external prices, equals the value of export in terms of external prices. If the balance of trade is passive, that is, the value of import, in terms of external prices, exceeds that of export, this index expresses the gain or the loss, only for that quota of the import that represents the equivalent of export.

---

* We wish to specify that this situation does not imply the need of giving up the activities of foreign trade, as profitableness is expressing only one side of its economic efficiency. The effects of foreign trade on the national economy development are by far greater and more important than those quantifiable in monetary terms. This situation represents, however, an alarm towards enhancing the concern for the improvement of the export and import structure, thus not only increasing profitableness, but also total economic efficiency of foreign trade.

This disadvantage may be obviated by applying the rate of foreign trade profitableness to the total value of import.

$$R_{ft'} = V^{imp} \times \frac{r}{100} \text{ (lei)} \qquad (3.1)$$

where

V^{imp} = the total value of import, expressed in internal selling prices.

This variant of the P_{ft} index shows how much national economy as a whole has gained or lost through the export and import operations, for a specified foreign trade profitableness rate.

We consider that the use of the index $R_{ft'}$ in the conditions of high profitableness rate is prejudicial due to the possibility of its favouring the direction towards excessive increase of import, without securing, through export, the necessary paying means, the negative effects of this situation resulting on the external balance of payments. On the occasion of the Conference on the activity in the foreign trade area, Nicolae Ceaușescu, General Secretary of the Central Committee of the Romanian Communist Party and Chairman of the State Council, criticized the fact that during the time interval from 1961 to 1966, import increased more rapidly than export, pointing out that "taking into account that we have no other means of paying the imported goods except those resulting from the export, ... such a state of things is likely to create severe difficulties for the development of national economy".*

The same index has a reverse effect if the profitableness rate is negative, effecting an excessive decrease of import.

In view of illustrating the above mentioned facts, we shall consider an example of computation. We shall assume an average return rate of export of 3.15 lei per 1 leu-currency, and an average return rate of import of 3.50 lei per 1 leu-currency. The total internal value of export amounts to 22,000,000,000 lei. The import value, in terms of internal selling prices, is 26,000,000,000 lei. Thus:

$$P_{ut} = \frac{3.15}{3.50} = 0.90 \text{ lei} \qquad (1')$$

The ratio being less than unity, it means that foreign trade is profitable. In view of purchasing an amount of imported goods equivalent to 1 leu, 0.90 lei were spent at export.

$$r = \frac{3.50 - 3.15}{3.50} \times 100 = 10\% \qquad (2')$$

This ratio shows that for the national monetary unit (leu) the revenues achieved through import exceeded by 10% the export expenditures.

$$P_{ft} = 22,000,000,000 \times \frac{10}{100} = 2,200,000,000 \text{ lei} \qquad (3')$$

---

* *Nicolae Ceaușescu*: Cuvîntare la Consfătuirea privind activitatea în domeniul comerțului exterior, Editura Politică, 1967, p.7.

The net revenue, amounting to 2,200,000,000 lei indicates that in exchange of export goods which cost national economy 22,000,000,000 lei, goods equivalent to an internal value amounting to 24,200,000,000 lei have been imported.

$$P_{ft'} = 26{,}000{,}000{,}000 \times \frac{10}{100} = 2{,}600{,}000{,}000 \text{ lei} \qquad (3'.1)$$

This variant of the P_{ft} index shows that the net foreign trade profit increased to 2,600,000,000 lei, that is by 400 million lei more than in the first variant. In considering the results of both variants, it may be seen, however, that imports amounting to 1,800,000,000 lei were not covered by counterpart exports of goods.

The benefits resulting from the indexes suggested are:

1. They allow a synthetic estimation of foreign trade profitableness, surpassing the indexes so far used, by opposing the efforts of national economy, expressed in monetary terms, for the export of goods, to the profits achieved by importing goods, at the same time taking into account the influence of external export and import prices.

2. The computation is extremely easy to perform, considering that the total export value, the import value in terms of internal selling prices, the average return rate of export and the average return rate of import constitute planning and statistic indexes, that are currently being computed at present.

3. As the computation is being made using average values on the national economy scale, we may consider that the various deviations of product return rates from the ratio of national labour productivity to the international labour productivity are counterbalanced. It goes without saying that in view of securing a higher accuracy of the above-mentioned indexes an improvement of the rate of exchange computation is indispensable. This is why the adjournement of these indexes application till the enforcement of new wholesale prices might be adequate since, in this case, the prices of means of production, as well as those of consumer goods, will more closely reflect the social production costs.

4. The methodology suggested here might not only be used for computing the entire foreign trade profitableness, but also for the synthetic estimation of export — import relations between different countries and classes of products. Thus, the classes of products and the countries giving the opportunity of achieving profits exceeding the average might be easily emphasized and the available reserves for the increase of foreign trade profitableness, by improving the goods structure and its geographic direction, might be ascertained.

INDICATEURS SYNTHETIQUES POUR L'ESTIMATION DE LA RENTABILITE DU COMMERCE EXTERIEUR

Partant de la définition de la rentabilité du commerce extérieur — expression monétaire de la différence entre les revenus réalisés par l'économie nationale à l'aide de l'importation de produits et les dépenses effectuées en vue de l'exportation de produits — l'auteur propose

trois indicateurs caractérisant la rentabilité du commerce extérieur, qui ne sont pas mentionnés dans la litérature de spécialité, ou en pratique:

$$P_{ut} = \frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} \text{ (lei)} \quad (1)$$

où

P_{ut} = rentabilité du commerce extérieur rapporté à 1 leu-devise.

$\bar{R}_e^{exp}$ et $\bar{R}_e^{imp}$ = le «cours de récurrence» moyen de l'export, respectivement de l'import

$$r = \frac{\bar{R}_e^{imp} - \bar{R}_e^{exp}}{\bar{R}_e^{imp}} \times 100 \quad (\%) \quad (2)$$

où

r = taux de la rentabilité.

$$P_{ft} = V^{exp} \times \frac{r}{100} \text{ (lei)} \quad (3)$$

où

P_{ft} = rentabilité du commerce extérieur.

V^{exp} = valeur totale de l'export, calculé en lei.

La signification économique et les avantages présentés par ces indicateurs sont soulignés.

СИНТЕТИЧЕСКИЕ ПОКАЗАТЕЛИ ДЛЯ ОЦЕНКИ РЕНТАБЕЛЬНОСТИ ВНЕШНЕЙ ТОРГОВЛИ

Исходя из определения рентабельности внешней торговли как денежного выражения разницы между доходами, полученными народным хозяйством от импорта товаров, и расходами на экспорт товаров, автор предлагает 3 показателя рентабельности внешней торговли, не встречающиеся в специальной литературе или на практике:

$$P_{ut} = \frac{\bar{R}_e^{exp}}{\bar{R}_e^{imp}} \text{ (Лей)} \quad (1)$$

где

P_{ut} = рентабельность внешней торговли на 1 лей — валюта

$\bar{R}_e^{exp}$ и $\bar{R}_e^{imp}$ = «средний курс пересчета» экспорта или импорта

$$r = \frac{\bar{R}_e^{imp} - \bar{R}_e^{exp}}{\bar{R}_e^{imp}} \times 100(\%) \quad (2)$$

где:

r = норма рентабельности

$$P_{ft} = V^{exp} \times \frac{r}{100} \text{ (Лей)} \quad (3)$$

где:

P_{ft} = рентабельность внешней торговли

V^{exp} = общая стоимость экспорта в лей.

Подчеркивается экономическое значение и преимущества этих показателей.