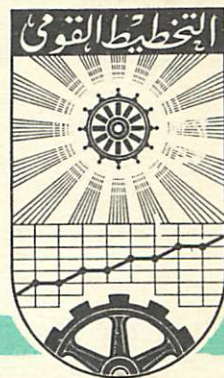


UNITED ARAB REPUBLIC

THE INSTITUTE OF NATIONAL PLANNING



Memo. No.1220

FOREIGN TRADE PLANNING

By

Professor Dr. Gerhard Grote

April 1978.

FOREIGN TRADE PLANNING

By

Gerhard Grote

The Institute of National Planning

<u>Contents:</u>	<u>Pages</u>
0 . Introduction..	1
1 . Foreign trade planning in the framework of planning the national economy.	3
1.1 The role of foreign trade within the national economy and consequences in principle for planning foreign trade.	3
1.2 What means planning in general and foreign trade planning in particular?.	6
1.3 Foreign trade policy and the aims of foreign trade planning	12
1.4 Subjects of foreign trade planning.. . . .	15
2 . Economic Efficiencies and Optimality in Foreign Trade Planning	18
2.1 The problem of optimality in foreign trade and possibilities for optimizing the foreign trade plan.	18

	Pages
2.2 Maximizing the economic efficiencies--an important aim in foreign trade planning ..	21
2.3 Indices for calculating the specific exchange effects of foreign trade for the national economy as a whole	23
2.4 Indices for calculating the economic efficiencies of foreign trade on the level of enterprises or for single commodities.. . .	30
3 . Foreign Trade Planning as a Continuous Process and Special Problems in Long-term Planning.. . .	34
3.1 Characteristics of continuous planning foreign trade..	34
3.2 Prognoses in foreign trade and their interrelations to foreign trade plans.	37
3.3 Long-term-planning in foreign trade. . . .	40
4 . Techniques in Medium and Short-Term-Planning Foreign Trade	45
4.1 Subjects of medium and short-term planning foreign trade..	45
4.2 Medium-term (5 year)-planning foreign trade	49

	Pages
8.4 Application of current or constant prices in planning and analyzing foreign trade ..	110
9. Different Problems and Possibilities in Planning Foreign Trade With Socialist and Capitalist Countries.. .. .	112
9.1 The role of the regional structure in planning foreign trade	112
9.2 Specialities in planning foreign trade with socialist countries.. .. .	115
9.3 Specialities in planning foreign trade with capitalist countries.	118
10. Application of Mathematical Models and Computers in Foreign Trade Planning.	121
10.1 Objectives of optimization calculations in foreign trade planning.,	121
10.2 A Linear Programming Model for Optimizing the Commodity and Regional Structure of foreign trade.. .. .	127
10.3 Experiences in applying linear programming models for planning foreign trade	131

	Pages
4.3 Short-term (annual)-planning foreign trade... ..	52
4.4 The elaboration of the foreign trade plan in several stages... ..	54
5 . Connection of Central Planning and Planning on Branch and Enterprises Levels in the Field of Foreign Trade... ..	58
5.1 The institutional framework of planning foreign trade and the principle of "2-channel-planning" in this field.	58
5.2 Foreign trade planning in the State Planning Commission (Ministry of Planning)	64
5.3 Tasks and activities of the ministry of foreign trade and other ministries in foreign trade planning	66
5.4 Foreign trade planning on the level of enterprises.	70
6 . Implementation of Commodity Balances in Foreign Trade Planning.	75
6.1 The role of balancing in planning the national economy in general and the foreign trade in particular	75

	Pages
6.2 The use of commodity balances in foreign trade planning..	80
6.3 Experiences of the GDR in using commodity balances for planning foreign trade..	83
7 . Balance of Payments in Planning Foreign Trade and Foreign Exchange.	89
7.1 The balance of payments in the network of balances of the national economy and general relations to foreign trade planning	89
7.2 Planning of foreign exchange	93
8 . Prices in Foreign Trade Planning.	99
8.1 The role of prices in foreign trade planning	99
8.2 External prices in foreign trade planning	103
8.3 Internal prices in foreign trade planning	107

Introduction:

Economic growth, equilibrium and the effectivity of the economy as a whole are to a high extent influenced by the development of volume and structure of foreign trade. For this planning export and import as a part of the national reproduction process⁽¹⁾ is necessary and the implementation of a practicable and effective framework of foreign trade planning is an important and actual task.

The following paper will give you a detailed survey on the lecture to questions of foreign trade planning. It is my intention, based on some theoretical basic ideas, to give you a comprehensive summary on techniques in foreign trade planning which might be useful for being applied in your country.

As far as practical experiences are analysed, I shall refer to the practice of planning foreign trade in different stages of the development of the national economy of the German Democratic Republic. It is, of course, not possible directly to copy this system as you have to take into consideration the concrete political, economic and other conditions of the country concerned.

(1) The term "Reproduction Process" covers production, distribution, exchange and consumption as different elements in the comprehensive system of social production as a whole.

But nevertheless there are general experiences and general planning principles which proved to be effective in the case of my country and which also may be of some importance for developing countries.

The table of contents will show you the broad scale of questions and problems to be dealt with in this lecture. It is impossible to treat all of them in a profound manner in this paper. That is why some problems only will be described in short theses, in some cases the questions will be listed without further comments. During the lectures and seminars it will be possible to deal with these problems, too, more ~~thor-~~ oughly.

Some parts of this paper were taken from the Memos No. 992, 997, ~~1000~~ and 1014 of the Institute of National Planning. So I want to express my thanks to my colleague Prof. Dr. Schultemeister, the author of these Memos.

1 . Foreign Trade Planning in The Framework of Planning

The National Economy:

1.1 The role of foreign trade within the national economy and consequences in principle for planning foreign trade:

Foreign trade is a special sector of the national economy. It has close relations with all other branches of the economy and influences - directly or indirectly - more or less the production, consumption, accumulation and distribution in all spheres and on all levels of the national economy. The foreign trade intensity of the economy of a certain country depends upon different factors, especially:

- the size of the country and its population and the capacity of the internal market;
- the reached stage of economic development;
- the natural conditions (mineral resources, climate, geographical situation);
- the foreign political relations (for instance member of an international integration community).

In general the two main functions of foreign trade can be characterised as follows:

a/ Foreign trade is to change and to rectify the structure of the national economy in such a way, that the necessary proportions between the different spheres, branches and commodities of the national economy as a whole may be realized. That means for instance the proportions between

- * agriculture and industry;
- * different industrial branches;
- * final products and intermediary goods;
- * investment goods and consumer goods etc.

This task includes the complementary and the substitutive function of foreign trade. The higher the level of economic development of the country concerned, the greater are in general possibilities of using the substitutive function of foreign trade for achieving an optimal structure of production of the national economy. An effective system of comprehensive planning will create such possibilities also for countries on a lower stage of economic development.

b/ Foreign trade is an important factor for improving the efficiency of the national production and for increasing the national income. This possibility results from

the fact that foreign trade realizes the effects of international division of labour. These effects of export and import can be realized in the field of production (we call them indirect economic efficiencies of foreign trade) or in the special foreign trade branch (in this case we call them direct economic efficiencies of foreign trade). Detailed information on this subject will be given in paragraph 2.2.

The two above mentioned functions stand in close interrelations. Foreign trade gives the possibility to concentrate the production on those branches or groups of commodities having the greatest comparative advantages. Thus changing the structure of production by export and import is a decisive source for increasing the effectivity of the national economy.

In developing countries foreign trade is in general of great importance for overcoming economic backwardness, eliminating existing disproportions in the national economy and stimulating the rates of growth of production and of national income. The concrete tasks for export and import will differ according to the reached stage of development

and other above mentioned factors. Apart from some OPEC-countries the most developing countries face great problems in balancing export and import and in equalizing the balance of payments. So a good quality in planning foreign trade will be a necessary task as a basis for fixing the best strategy for the development of international economic relations and for finding the best possibilities of using the effects of international division of labour for promoting a high effectivity of the national economy as a whole.

1.2 What means planning in general and foreign trade planning in particular?

In theory and practice you will find different opinions on how the term "planning" is to be understood. As far as the enterprise level is concerned it is clear in general that planning is a complex of activities for finding the best - the "optimal" - solution for reaching certain aims and for coordinating the activities of different departments of the enterprise in carrying out certain tasks in certain periods. That means, planning is an important basis for decision making in fixing the policy of the enterprise concerned.

The problem is how to define central planning on the level of the national economy and how to determine the connection between central planning and planning on the level of branches and enterprises. This includes interalia questions for

- the binding force of the tasks of the central plan;
- the connection between central planning and planning on lower levels in general;
- the degree of consistency between the tasks and the means for their fulfilment in the central plan and the sum of plans in branches/enterprises and the regions of the country;
- the means, applied for ensuring the fulfilment of the targets of the plan.

Jan Tinbergen writes, that the most characteristic features of the task of planning are the following three

- a/ A plan refers to the future, i.e. it requires looking ahead.
- b/ It is based on a number of aims, which have to be specified in order to carry out the planning process.

- c/ It requires a coordination of the means of economic policy to be used in order to reach the aims. (2)

One can agree with him, but this definition gives no answer on the very different conditions for planning in free market economies, in centrally planned economies in socialist countries and in developing countries with different property (socio-economic) relations.

In western countries you will find that central plans, as far as they are elaborated at all, are only a kind of forecasts. They have no binding force and are not in coincidence with plans on branch and enterprise levels.

On the contrast socialist planning, based on the experiences of the past, can be characterised by the following items:

- a/ Establishing targets for the economic and social development of the country as a whole as so as for the development of all branches, enterprises and regions for a fixed period on the basis of the available resources;

(2) Jan Tinbergen "Central Planning" New Haven and London
Yale University Press, 1964, page 3 .