

## THE ROW MATERIAL POLICY IN POOR AND SMALL COUNTRIES

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### Abstract

*The major tasks concerning economic diversification and modernization mean the importance of priorities for foreign policy regarding economic diplomacy. Thinking about the governmental tasks for prioritizing directions of foreign trade activities, by attracting international investors, by upgrading technology, importing advanced foreign technologies, exporting development, and promoting national economic interests abroad. The Governmental structures and authorized institutions always relay on importance for external economic policy, focusing on achieving concrete economic results. In a globalized industrialization, tasks of economic modernization, development of the resource and infrastructure establishing for the Ministry of Foreign Affairs and European Integration, tasks that require intensification of economic cooperation in a widespread area. The particular importance in this research has the close relationship between cooperation within international organizations with universal or regional interests. Achieving the objectives of economic diplomacy will help improve the competitiveness of the economy ultimately, create new industries and jobs and economic growth of the country as a whole.*

*Keywords:* poor countries, raw materials, trade, export, import advanced technology.

### 1. Introduction

The volume increase of world trade is expected to remain low in 2016 at 2.8%, unchanged from the rate of 2.8% in 2015 (Figure 1). Imports from developed countries are expected to decline this year while demand for imported products expected to resume momentum in the economies of developing countries in Asia. World trade growth is expected to reach 3.6% in 2017, WTO economists as announced on April 7, 2016.

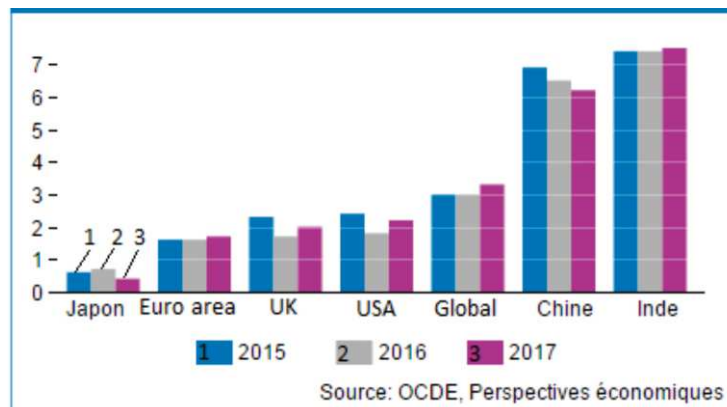
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**Figura 1. The world economy is caught in a trap of real economic growth, real GDP growth, annual changes, %**



Source: OECD Secretariat de l'. 2016

How should those countries with poor in natural resources, proceed? These countries are looking for other options of existence, focusing on financial markets, services, tourism, or importing stocks, process it and later sale products already with a degree of intelligence and high tech, adding high value. Moldova and other countries do not have rich natural resources. South Korea was taken as an example, to learn from its experience.

Research purposes. To research the strategic behavior of some countries, like South Korea shortage of raw materials, but having a high GDP and a decent standard of living of the population.

The methods used focused on the comparison, statistics, induction, deduction, etc. Once in dimensions territory states can be ranked:

States with several million km<sup>2</sup> area:

- Russia, Canada, China, USA, Brazil, Argentina, Australia, India, Kazakhstan ....

Member surface of hundreds of thousands of km<sup>2</sup>:

- France, Ukraine, Spain, Germany, Sudan, ...

States with an area of several thousand or tens of thousands of km<sup>2</sup>:

- Austria, Ireland, Moldova, Switzerland, Lithuania ...

Classification of states in the world after wheat Insurance natural resources

States with a complex natural resource of global significance

- Russia, USA, Canada, Australia, Brazil, R.A.S., Mexico, Kazakhstan ...

1-2 states that have natural resources of global significance

- Arabic peninsula, Libya, Chile, Peru, Zambia (copper), Malaysia, Thailand (tin), Sweden, Norway, Finland (res. forestiere)

Countries that have natural resources of national or regional significance

- Great Britain, France, Ukraine, Germany, Belarus, Tunisia, Argentina, Azerbaijan ...

Member poorly supplied with natural resources

- Moldova, Japan, Switzerland, Lithuania, Latvia, Nicaragua, Sudan, Ethiopia, ...

How poor and outdated economic Korea managed a leap without precedent in the world economy. If analyzed briefly, the strategy chosen by the Government of South Korea, will serve as the basis of its export strategy. In the last 35-40 years, Korea was transformed actually into a country-factory, importing raw materials and turning them into finished products and exporting them. There was no another way for South Korea that lacks in natural resources. It is clear now that after such strategy adopted by South Korea, the country, is in considerable export dependencies. The status of global markets, exchange rate fluctuations, changes in customs legislation in a short time affects directly every Korean, and information regarding import-export are studied carefully by all who in one way or another are related to the Korean economy.

The ascendant growth of the Korean economy was begun in the early 1960s, when the country adopted export strategy. Over a period of a quarter century (aa.1964-2000) South Korea become first among other places in the world, in the growth of exports, which grew by 22.4% on average annually (in some even successful years the export is doubled). In 2001 S. Korea relatively small country, by the general foreign trades and export volume, ranks 13th in 2015, reaching its export share amounted to 7 150.6 billion USD and all foreign trade (imports and exports) totaled 291.5 billion USD. For comparison: Russia's foreign trade in recent years ranked 17th in the world, exporting 103,1 billion, and overall foreign trade - 162.1 billion dollars, so almost two times less than South Korea. This indicates that Russia after foreign trade parameters is at the same level with Malaysia and Sweden, but remains far behind Taiwan and Singapore.

**Table 1. FOB exports, Imports CIF and FOB / CIF trade balance by main groups of Countries, EUR million**

	January 2016		
	FOB Exports	Imports CIF	FOB / CIF trade balance
<b>TOTAL</b>	<b>4118.1</b>	<b>4500.4</b>	<b>-382.3</b>
Of which:			
EUROPE	3592.1	3919.2	-327.1
EUROPEAN UNION	3200.4	3527.4	-327.0
EFTA	34.6	38.2	-3.6
OTHER EUROPEAN COUNTRIES	357.2	353.7	3.5
<b>ASIA</b>	<b>283.5</b>	<b>455.6</b>	<b>-172.1</b>
MIDDLE EAST	159.8	24.3	135.5
OTHER ASIAN COUNTRIES	123.8	431.3	-307.5
<b>AFRICA</b>	<b>124.4</b>	<b>45.5</b>	<b>78.9</b>
NORTH AFRICA	95.2	27.8	67.4

OTHER AFRICAN COUNTRIES	29.2	17.6	11.6
<b>AMERICA</b>	108.6	76.0	32.6
OCEANIA	4.4	2.5	1.9

Income per capita in South Korea rose from \$ 100 in 1963 to nearly 30.000 USD today. Unemployment is decreasing, and reached the lowest level since 2002, but the number of illegal workers is important, growing inequality and social ties are deteriorating. The largest foreign trade partner of South Korea remains the US, the trade volume in 2001 was USD 53.4 billion (18.3% of the total foreign trade turnover). In second place is Japan (USD 43.1 billion or 14.8% of turnover), followed by China (10.8%), Hong Kong (3.7%) and Taiwan (3.5%) . 5 main export partners among EU countries, in decreasing order of volume registered are Germany (4.7 billion USD), UK (USD 4.3 billion), the Netherlands (\$ 3.1 billion), Slovakia (2, 8 billion USD) and Italy (2.7 billion USD), while the imports are Germany (15.6 billion dollars), France (\$ 4.8 billion), Britain (\$ 4.4 billion), Italy ( USD 4.3 billion) and the Netherlands (USD 3.2 billion).

**Table 2. South Korea's economic indexes, 2012-2016**

<b>Annual growth</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016 (e)</b>
GDP(USD bn)	1222.81	1305.61	1410.38	1392.95	1450.05
GDP(Annual growth in%, constant prices)	2.3	2.9	3.3	2,7e	3.2
GDP per capita(USD)	24.454	25.998	27.970	27.513e	28.525
Public financial balance(% Of GDP)	1.6	0.8	0.9	-0.3	0.4
State debt(% Of GDP)	32.3	34.5	36.0	38.2	39.3
Inflation rate (%)	2.2	1.3	1.3	0,7e	1.8
Unemployment rate(% Of active population)	3.2	3.1	3.5	3.7	3.5
Current Balance transactions (USD bn)	50.84	81.15	89.22	98,40e	96,87
The balance of current transactions on (% Of GDP)	4.2	6.2	6.3	7,1e	6.7

*Sliver:* IMF - World Economic Outlook Database, 2015

*Note:* (e) Estimated Data

Saudi Arabia trade, placed 6th, is not well stabilized: Korean exports in this country are \$ 8 billion, while imports - only \$ 1.3 billion. This gap is explained by the fact that Saudi Arabia is the largest oil supplier for South Korea. The 7th or 8th place out of 10 largest trading partners is Germany, Indonesia, Australia and Singapore. The

turnover with Russia in 2001 was only 2.9 billion USD, ranking 29th among other partners. Foreign trade between Russia and S. Korea is not well balanced, S. Korean imports from Russia amounted 1929 billion dollars, while exports to Russia - 938 million USD. This discrepancy is due to the fact that raw material trade is predominant with S. Korea. Main exports between S. Korean and Russia - are petrochemicals (20% of total exports), produced food, textile, automobile, electronic products. Russia sells in Korea mineral products (30% of all imports from Russia), metal products (mainly - material for metallurgical plants) and seafood. These figures do not reflect the whole picture because individuals are omitted (small entrepreneurs to trade in used cars), sometimes close to the official.

**Table 3. World trade in commercial services by region and economy, 2015**  
**Billions USD and % Value**

	Export		Import	
	Value, 2015	Variation% 2010-15	Value 2015	Variation% 2010-15
World	4675	3.8	4570	4.1
US	690	4.9	469	4.4
Brazil	33	2.4	69	3.6
europa	2205	3.1	1880	2.6
EU-28	1958	3.1	1707	2.7
China	229	4.1	437	17.4
Japan	158	3.7	174	1.3
India	158	6.3	126	1.9
Singapore	140	6.7	144	7.2
<b>South Korea</b>	97	3.3	112	3.1
Russia	49	0.1	85	3.1

Source: WTO report 2016

Article principal occupies in export automobiles, steel, semiconductors, electronics and marine cargo ships. All these Guiding products are intended primary destinations for foreign market. About half of the cars produced se exportă (at 2001-1500000 from 2.95 million) and Heavy virtually all ships built in Korea. In 2001 the first place was semiconductors (9.5% related to total exports). Then comes automobiles (8.8%), computers (7.4%), digital means of communication (6.6%) and ships (6.4% of exports). Korea imports preponderance raw materials and technologies (spoken less. In Korea missing eesursele energy of which reason all the oil and gas are imported. Korea, although it is small, is fifth after the import volume of oil in the world . in 2001, oil

imports accounted for 15% of total imports of Korea (after cost). the gas is second only to oil - 3% of imports. the imports a considerable amount of cǎbune, including cox, without which it operates steel production. Coal for cox holds third place in import. the country imports about half of the iron ore required, wood and other raw material.

After the research authors, among the ten countries that import Iranian oil records: China: 550,000, India: 320,000 Japan 310,000, South Korea: 220,000, Turkey 190,000 Italy 180,000, Spain: 160,000, Greece: 110,000, South Africa, 60,000, France 50,000 (barrels per day): [possible]. The main consumers of oil remain stable in industrialized countries worldwide. But lately accelerated increase in consumption from developing countries as a share amounting to the industrialized countries. Fluctuations if and excel in the field in recent years - are insignificant. Consumption remains first in the US.

**Figura 2. Top 10 most Innovative Economies [3]**



*Sources:* Bloomberg, International Monetary Fund, World Bank, OECD, WIPO, UN, 2016

Regarding foreign trade, 2001 was not the best for Korea - unlike success in 2000. In 2000, the prices significantly reduced for some products in Korean exports - primarily for steel and semiconductors. An important role was played September 2011, which had a negative impact on the US economy - the main trading partner of Korea as well as difficulties in the second half of the same year affecting most developed economies. Therefore, Korean exports in 2001 compared to 2000 increased by only 0.7% - modest result compared to 1989. Multiple South Korea's problems have been created by high oil prices, which are kept for a long enough time (for Russian delight), however the trade balance remained positive. Meanwhile, trade balance, despite all difficulties, remains positive, ie exports exceeded imports: in 2001, S. Korea sold goods by 8.4 bln. USD more than bought.

These issues - remain tactical and temporary: the price however is always fluctuates but after this recession it will exchange vector for growth inevitably. Unfortunately, the tactical problems are not limited to a growing strategic threat to South Korean trade companies from China's foreign trade. This is due to the structure of S. Korean exports, the products that have traditionally predominated in intensive manpower industries with a medium difficulty as shipbuilding (four naval giants Hyundai Heavy Industries headed, then Daewoo Shipbuilding & Marine Engineering

(DSME) and Samsung Heavy Industries), Automotive and metallurgy [core].

In this area, the main advantage of Korea lies in the availability of cheap labor and very disciplined and high level of education. In recent years the situation has radically changed. Korean workers currently receive salaries similar to those Spanish or Greek, while in China, workers are receiving quit modest salaries as before. In early 2002, the average wage of workers on the assembly line in Korea amounted to \$ 7.75 per hour; while in China was eight times lower - just \$ 0.92 per hour.

**Table 4. New world order: the Largest Economies in 2050 [2]**

2010		2050	
Country	GDP (Billion USD)	Country	GDP (Billion USD)
US	14524	China	24600
China	5743	US	22300
Japan	5391	India	8200
Germany	3306	Japan	6400
France	2555	Germany	3700
UK	2259	UK	3576
Brazil	2204	Brazil	2960
Italy	2037	Mexico	2810
Canada	1564	France	2750
Russia	1477	Canada	2287

1000 KRW = 0.84USD / 1USD = 1190 KRW

This gap allows Chinese companies to substitute competitors in the areas of South Korean industries with high labor share. Already, there is a pressure of Chinese shipbuilding and metallurgy industries, and it expecting the same in Chinese car manufacturing. In any case rejection of the export strategy for Republic of South Korea in the near future is not an option. Exports remain the key of success of Korea's economy, the base of the entire economy.

The Korean companies at the moment have two options to overcome this potentially dangerous situation. The first way - is to build high-tech industries, primarily - in electronics, IT and telecommunications. In these areas, Chinese producers are not yet serious competition, but these Korean companies must tackle another challenge: to enter the market mature, trained, long time occupied by Western firms and Japanese as well.

The second way - is the gradual transfer of simple technology industries, but with a share of advanced manpower-intensive outside Korea, in countries with cheap labor. It is no coincidence that more and more Korean companies set up factories in Malaysia, Vietnam and of course China. In any case, it is clear that Korea does not give guidance exports from Korea in the near future. Exports - the main condition for

prosperity of the country based his entire savings.

The fifteenth largest economy - South Korea has seen a dramatic increase in the last thirty years. However, due to its strong involvement in international trade and finance, the country is vulnerable to external shocks. In 2015, Korean economic growth has stagnated (2.7%), the country faces an epidemic of the Middle East respiratory syndrome (MERS), which has affected consumption. It is expected a slight rebound in economic growth in 2016, with recovery in household consumption and entry into force of the FTA signed with Australia and China.

South Korea suffering since 2012 with the economic downturn in China and the US, the country's main trading partners. In response to the slowdown in 2015, the Korean government has set a stimulus package of 19 billion USD, which provides special tax exemptions, infrastructure construction and aid to SMEs. Budget 2016 also includes measures to strengthen social protection and development services. The government launched a second five-year plan for 'green growth', but at the COP 21 climate commitments disappointed. With inflation at high, the central bank carries out accommodative monetary policy. If, in 2015, the country registered a slight deficit due to exceptional expenditure, public balance should lay some surplus in 2016. The public debt sustainability, but corporate debt represents 30% of GDP and the high level of household debt poses a risk to the banking sector. The country will also address structural problems as financial market underdevelopment, aging and eroding the country's competitiveness as a result of the modernization of the Chinese economy. At the end of 2015 was marked by a strong wave of protest against the liberalization of the labor market. Despite the agreement "six points" between the two countries, tensions with North Korea persists.

Income per capita in South Korea rose from 100 USD in 1963 to over 30.000 USD today. Unemployment is declining; reaching its lowest level since 2002, but the number of illegal workers is increasing and affecting social ties as well.

*Key industries.* The primary sector is weak in Korea, representing only a negligible part in the country's GDP. Rice is the main crop, cultivating it and barley, wheat, corn, soybeans and sorghum widely. It is also widespread livestock. South Korea's mineral resources are limited to gold and silver. The country's major industries are textiles, metallurgy, automobile manufacturing, shipbuilding and electronics. South Korea is the largest semiconductor manufacturer in the world. The manufacturing sector represents 40% of GDP, whereas the tertiary sector represents almost 60%.

*Trade.* South Korea's largest exporter 7th and 9th importer of goods (13 services) and trade represents over 104% of GDP (average 2012-2014). The trade balance is largely a surplus starting in February 2012 and should remain so in the coming years. In 2015, the trade surplus reached a record exceptional 90 billion, decreasing imports (-16.9% compared to 2014), faster than exports (-7.9%). Main trading partners are China, Japan, European Union and United States.

After sustained growth in recent decades (with an average annual growth of gross domestic product [GDP] of 7.1% between 1980 and 2010), the South Korean economy now growing at a more moderate pace (average annual GDP growth of 3.0% between 2010 and 2014). Dependent largely on the good performance of exports (48.1% of GDP in 2014), South Korea's economy continues to suffer from the global economic and financial crisis of 2008 and its effect on international demand, especially



China and other Asian countries. Moreover, the rise in recent years by the Korean currency (won), especially against the Japanese yen, undermining the competitiveness of exporters. The high level of indebtedness of Korean households - whose average disposable income has not increased as fast as the rest of the economy - weighed on consumer spending and the housing market.

*Concluding*, it can be noted that as the level of living standards are high, it is not mandatory that the country features natural resources, deposits or is extremely labor-intensive. With more importance the country has a well-developed strategy, oriented to the export of finished smart products with a degree of advanced technicality. Every country in the international division of labor chooses the optimal path.

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