Independent Growth of China's Proceeding Trade in the Global Value Chains

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Abstract—China has participated in the intra-product division in the global value chains by the proceeding trade. But the proceeding trade enterprises from China are still in the low part of the global value chains those high parts are controlled by the transnational corporations, which makes China's enterprises gain low added-value. So the proceeding trade in China must transform and upgrade, and get rid of the domination of transnational corporation. The most important method that China's enterprises can adopt is that the proceeding trade enterprises can grow up by themselves, and this method is also the key to achieve transforming and upgrading for the proceeding trade enterprises.

Keywords—Global value chain; proceeding trade; transnational corporation; grow-up by self

I. INTRODUCTION

With the development of intra-product division under the global value chain, developing countries play important roles, and developed countries has transformed their low-value parts of value chain such as assembly and, proceeding to some developing countries who own much more labors, which leads to the prosperity of proceeding trade in China. And the proceeding trade has become the main force of economic development, while then the transnational corporation from developed countries dominate most of proceeding trade in China. All kinds of manufacturing enterprises in China have participated in the proceeding trade and played important roles in the global value chain by intra-product division. But China's proceeding trade is in the dilemma such as controlled by the transnational corporation, in the low part of global value chain and unable to climb to the high part of global value chain. So the most important method that China's enterprises can adopt is that the proceeding trade enterprises can grow up by themselves, and this method is also the key to achieve transforming and upgrading for the proceeding trade enterprises.

II. CURRENT CONDITION OF CHINA'S PROCEEDING TRADE IN THE GVCs

In the process of development of China's proceeding

trade, the proceeding trade includes two kinds, the first one is that the manufacturing enterprises enter into contracts with overseas transnational corporations to finish the production order, that is proceeding trade, and the second one is that some transnational corporations invest in China to establish new factories to complete some parts of the global value chain, that is mating production. While the proceeding trade takes great account of China's foreign trade, and this paper will use value-added rate of processing trade to measure the current condition of proceeding trade. The results are as follows:

$$\begin{aligned} & \text{value-added rate of processing trade} \\ &= \frac{\text{export value of proceeding trade}}{\text{import value of proceeding trade}} \end{aligned}$$

This paper will use some data from official net of China Customs and National Statistics Bureau to analyze the value-added rate of processing trade from 2005 to 2014, the results are as the table 1 shows.

From the table 1, the value-added rate of processing trade is not high. From the year 2005 to 2014, the highest value-added rate is 1.82 of the year 2009, and the average number of each year is 1.5383, less than 1.6. From the entire development of China's processing trade, it is so stable, but the total level should be enhanced. The main result that leads to the low level of China's processing trade is that the foreign companies and transnational corporations dominate the main parts of value chain in China, because they only transform some primary parts such as processing to China.

TABLE I. VALUE-ADDED RATE OF PROCESSING TRADE

Year	Import Value of Processing Trade	Import Value of Processing Trade	value-added rate of processing trade
2005	274.012	416.467	1.52
2006	321.472	510.355	1.59
2007	368.474	617.560	1.68
2008	378.377	675.114	1.78
2009	322.291	586.862	1.82
2010	417.482	740.279	1.77
2011	469.756	835.284	1.78
2012	481.275	862.677	1.79
2013	497.275	861.026	1.73
2014	524.688	884.595	1.69
average			1.5383

Source of Data: China Customs and National Statistics Bureau

III. THE STATUS OF TNC IN CHINA'S PROCESSING TRADE UNDER THE GVC'S

With the rapid development of reform and opening-up, the number of foreign corporations in China is increasing, and they mainly deal in production, processing and manufacturing. These transnational corporations make full use of cheaper resources such as labor, and some favorable policies from government, and then they transformed the low-value part such as manufacturing and processing to China to decrease the production cost and profit. The transnational corporation finish the task of processing from the parent companies, and then take some processing business from other companies. In 2008, total value of processing trade by the transnational corporations takes account of the total value of China's processing trade by 84.5%, 83.9% in 2010, 75.57% in 2014, and the average rate is more than 75%, just as the figure 1 shows that the transnational corporations dominate the processing trade of China.

Figure 1. Ratio of Processing Trade between TNC and China

The transnational corporations dominate the processing trade in China, and these companies dominate Chinese market, which brings much more pressure to the enterprises of China's processing trade. On the one hand, the transnational corporations has advanced technology, and they can make good use of China's resources, and takes high-value part of global value chains, which makes China's processing trade enterprises take low-value parts of global value chains. On the other hand, the transnational corporations are well-known in the world and have more capital, so they take more processing business.

IV. INDEPENDENT GROWTH OF CHINA'S PROCESSING TRADE IN THE GVC'S

It is the key for the enterprises of processing trade in China to get rid of the domination of transnational corporations that the enterprises of China should transform and upgrade to climb the highest part of global value chain and achieve independent growth. And the independent growth is also the most important way for China's enterprises of processing trade to increase the abilities in the intra-product divisions in the global value chains, and then China's enterprises of processing trade will climb from the low-value part to the high-value part of global value chain. So we can see that independent growth has become one of the main methods for the development of enterprises, because the independent growth emphasizes the independent study, innovation and the ability to self-development. But the independent growth doesn't exclude processing trade, and the advantages of processing trade should be used as the facilities to make the enterprises of China participate in the international division and take much more processing business, which can increase ability of enterprises to study and innovate, and achieve the jumping in the global value chain. In addition, independent growth can avoid the path dependence and other troubles.

On the basis of above analysis, the core of upgrading for China's processing trade lies in independent growth pushed by the processing trade, because it makes comprehensive use of all modes to promoted the development of enterprises and bases on the independent growth, which can make up the shortcoming of processing trade in the great degree. The enterprises of processing trade participate in international division and achieve independent growth with the help of processing trade, but there is also a problem for them to choose. On the one hand, with the help of processing trade, the enterprises of China can climb up along the global value chain, which accommodate the development trend of international production division. On the other hand, the special condition of China can't make China's manufacturing grow and develop dependent on the processing trade from the long-term sight, the independent growth should be considered. Therefore, the independent growth is the basis for the growth of manufacturing enterprises accommodating the China's condition, which is the best strategy, at the same time, the advantages of processing trade should be used to participate in the division of global value chain, and take some processing business, and then jump from the low-value part to the high-value parts of global value chain.

V. CONCLUSION

The processing trade of China creates low rate of added-value in recent years, which contributes little to China's foreign trade. At the same time, the transnational corporations dominate the processing trade, which makes China's enterprises not get rid of the smile pitfall in the global value chain, so the transforming and up-grading of China's processing trade is essential. The independent growth is the key in the process of transforming and up-grading, and then China's enterprises can get much more added value.

ACKNOWLEDGMENT

During writing this paper, I got help from my colleague Jinping ZHANG, hereby I want to thank her help, and at the same time, with the help from Heilong Academy of Agricultural Sciences Postdoctoral Programme, I have this opportunity to study further. Programme: UNPYSCT-2016052; 2016QN023

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