

The method of building new competitive and comparative advantages for foreign trade enterprises

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Abstract: With the deepening of the economic globalization, China has become the key area of international industrial transfer, sustained and stable growth of China's economy is heavily depends on the sustained and healthy development of foreign trade industries, wherein foreign trade enterprises play an important role. The 2008 global economic crisis made the economic development truly in a slump, China's foreign trade developing process tends to slowing down, and trade protectionism is growing continually. In order to ensure the healthy development of China's foreign trade, we need to explore some new competitive advantages and comparative advantages in the development of foreign trade enterprises. This paper analyzes the current situation of the development of China's foreign trade enterprises, and then analyzes the causes of these problems encountered in the development process by foreign trade enterprises, and finally find the way to building new competitive and comparative advantages addressed by these issues .

[Li ping, Teng zhen-zhong. **The method of building new competitive and comparative advantages for foreign trade enterprises.** *World Rural Observ* 2014;6(4):30-35]. ISSN: 1944-6543 (Print); ISSN: 1944-6551 (Online). <http://www.sciencepub.net/rural>. 30

Key words: Foreign trade enterprises, Competitive, Advantage, Comparative advantage

Introduction

As one of the "troika" which could promote economic growth, exports plays an important role in keeping the sustained and healthy development of China's economy, the prosperity of China's export industry is depended on the rapid development of thousands of foreign trade enterprises. The outbreak of the economic crisis in 2008 made the global economic development in a slump. The growth rate of world trade in 2008 was only 2%, far below the growth rate of 6% in 2007. As shown in figure 1. China 's total import and export volume is 17,992.147 billion Yuan in 2008, wherein exports volume is only 10,039.494 billion Yuan, in 2009, China 's economic development fell into the most difficult period, foreign trade still increasing instead of dropping, the total exports volume increased to 15,064.806 billion Yuan, wherein exports volume is 8,202.969 billion Yuan. Since 2010, China's economic development showed a recovery trend. But the growth rate of the export department grew slowly. The downturn of the global economy made the foreign trade enterprises faced a growing number of difficulties and challenges, international trade protectionism made it difficult for keeping a foothold in the world of China's foreign trade enterprises, therefore, it is essential to explore a new momentum of business growth to enhance their competitiveness and help them return back to the world stage. The traditional competitive advantages of foreign trade enterprises derived from the core competitiveness of these enterprises namely: quality, cost and service; comparative advantage is derived from the difference of relative price, faced with a complex international

economic development situation, if foreign trade enterprises want to survive in the dynamic international environment, they must grasp the traditional competitive and comparative advantages and they also need to explore the new competitive advantages and comparative advantages to guide the development of business growth actively.

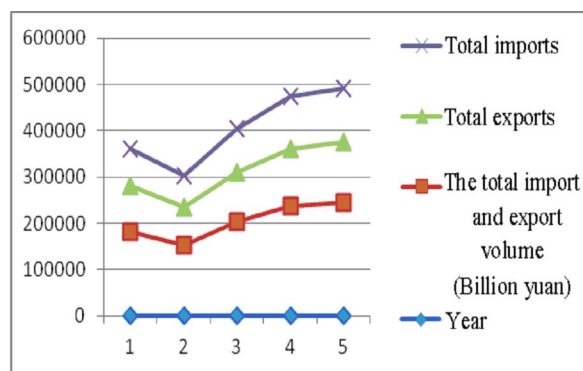


Figure 1. The export and import trade volume in 2008-2012

As shown in figure 1. it is the economic development of China's foreign trade in 2008-2012, it can be seen from the figure, since 2010, the volume of import and export emerged a steady upward trend, indicating that China's foreign economic situation is in the recovery phase.

1. The changes of advantages in the development of China's foreign trade enterprises

According to the traditional theory of competitive advantages and comparative advantages, the

development advantages of enterprises depends on resource endowments, interest and exchange rates, therefore, foreign trade enterprises positioning the competitive advantages in the development process as: quality, cost and service, by reducing costs, improve quality, optimize services to enhance the competitiveness of enterprises; simultaneously by seeking the best resources in a global scale to increase the relative price differences in order to achieve the comparative advantage. However, with the complex changes in the international situation and further development of the international economy and trade, competitive and comparative advantages of enterprises changes constantly, which makes the theory of comparative advantage and competitive advantage which regards natural resources as the core is no longer applicable in the development of modern foreign trade enterprises. Through Porter's theory of competitive advantage, we found that the competitive advantage has an important relationship with contemporary culture, value and history of a country, the competitive advantages and comparative advantages of these enterprises depend more on industrial upgrading and innovation capability.

(1) Competitive advantages come from the core competitiveness of enterprises

According to Porter's theory of competitive advantage, the company's competitive advantages come from three strategies: the overall cost leadership strategy, the differentiation strategy and the specific strategy.

First, the overall cost leadership strategy and the cost advantage of the traditional competitive advantage of foreign trade enterprises have almost the same idea, namely, the integration of a variety of resources to maximize the use of the global market to reduce the cost while ensuring the quality of the premise. For example, the production of labor-intensive products, in order to reduce labor costs we should produce these products in the labor-abundant areas like China, Southeast Asia and Africa. However, compared with the traditional labor advantages, today's foreign trade development emphasis on the efficient competitive advantage, they requires not only low cost but also requires speed, when it comes to the efficient of work, the efficient of the industry worker in China is much higher than many low wage areas like India and Vietnam, the foreign trade enterprises should choose China but not India and Vietnam which have a low wage standard.

Secondly, the differentiation strategy is the innovation of quality and service from traditional competitive advantages, which requires businesses to achieve differentiation in the service, which is also a manifestation of the core competitiveness of the enterprise. Differentiation strategy requires foreign

trade enterprises upgrading the competitive advantage which regard technology knowledge, brand service and quality as the core in dynamic international competition. Through differentiation strategy to build the brand image and technological advantages of the company's own.

Again, loyal strategy requires companies to establish special customers and they can also select the appropriate marketing channels and business models according to the special requirements of customers, not curing the original marketing models and trade patterns, to establish the intangible competitive advantages of the enterprise.

(2) Comparative advantages stem from differences of relative prices of resources

Traditional comparative advantage theory hold the view point that a country 's comparative advantages in foreign trade stem from natural resource endowments, therefore, international trade is labor-abundant countries export labor-intensive products, capital-rich countries export capital-intensive products. Modern trade practices found that the direct cause of international trade is the difference of the commodity price, then the difference in the cost of production determines the difference of commodity price, while the cost of production is determined by the difference of the relative price of resources, therefore, the comparative advantages of foreign trade enterprises stems from differences of relative prices of resource.

2. Status of the development of China's foreign trade enterprises

Economic globalization has promoted the further development of international trade, unified the countries of the world into an international market, the participating countries in the trade would get a broader market space, while also facing more intense international competition. The 2008 global financial crisis in the world caused a hit to the economic situation of many countries, the international trade volume has made a large contract, and the economy of the world fell into a climacteric, in this context. China's foreign trade had some welcome changes and also faced many severe challenges.

(1) Total trade growing, trade structure changing

Since 2010, China's total import and export volume grew year by year, the total exports volume is 12,324.060 billion Yuan in 2011, an increase of 15 % compared with 2010, the export growth rate has dropped slightly in 2012, an increase of 5.7%, the total trade volume has increased steadily. Most of China's traditional export products are labor-intensive products, which has a low value-added, in recent years, among the products exported from China's foreign trade enterprises, the share of high-tech products which has a higher value-added increased, by the end of 2013, the

total share of high-tech product exportation accounted for more than 30% of all products. Although China's foreign trade was still emphasize on labor-intensive products, but the industrial structure of foreign trade has been adjusted, which was a welcome change in the development of foreign trade. Meanwhile, in recent years, China's foreign trade enterprises improve the technology of production continuously, the equipment in production replace fast, it was able to rely on modern technology to reduce production costs, according to this to gain a price advantage.

(2) The quantity of the enterprise is large, the scale is small and rely on quantity and low price to gain competitive advantages

The number of China's foreign trade enterprises is large and the scale is small, it is difficult to form a scale effect, the ability of resisting risks is poor, when faced with international competitors, it is difficult to form a strong force to resist competition. As to the guidance and support from national economic policy, since the reformation and opening up policy, China's southeast coast emerged a large number of private foreign trade enterprises, whose products are mostly labor-intensive products of light industry, by seeking low cost labor in the country and also in the world to complete the production, reduce costs, by supplying low price product in the international market to enhance their competitiveness. However, with the development of economic globalization, resources could gain optimize allocation and could share globally, in India, Vietnam and Africa, these underdeveloped countries and regions can also produce labor-intensive products, even at a lower cost, thus reducing the international competitiveness of China 's foreign trade enterprises. The rapid development of technology made the competitive advantages of the labor-intensive products decline, the foreign trade enterprises which rely on low prices and the large number of products to gain the competitive advantages facing a serious situation and many challenges.

(3) The appreciation of the Yuan made the exportation less competitive

Since the debt crisis in Europe, especially since the financial crisis, the United States implemented a series of quantitative easing monetary policy to ease the country's economic recession, the euro remained weak, the Yuan continued appreciated, Data released by the National Bureau of Statistics shows that in 2011 100 dollars could convert 645.88 Yuan, in 2012 100 dollars could convert 631.25 Yuan , in 2013 100 dollars could convert 621.76 Yuan , the continually appreciation of the Yuan makes the relative price of the domestic product against foreign products rising, resulting in the international competitiveness falling in the international markets, which caused a large number of SMEs on the southeast coastal of China went to

bankrupt due to the appreciation of Yuan and the implicit costs rising. Meanwhile, a frequent fluctuation of foreign currency exchange rates has brought additional exchange rate risk to the survival and development of these enterprises.

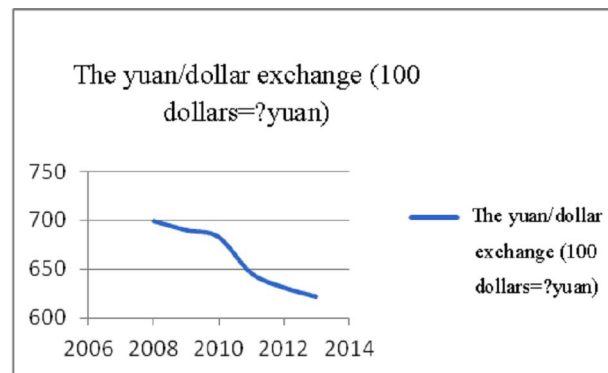


Figure 2. The Sino-US exchange rate in 2008-2013

As shown in Figure 2, since 2008, 100 dollars could convert less and less Yuan, namely the Yuan continued appreciated, and the speed of the appreciation continued accelerating.

(4) The internal mechanism is not perfect and lack of human capital

As to small foreign trade enterprises, because of the lack of funding, small in scale and the lack of professional management team, resulting in confusion in management; financial system and information system was not perfect could cause liquidity difficulties, there is a big response delay about market information, it could not make quick decisions according to the changes of market situation, so it would influence the strategic choice of enterprises. For state-owned foreign trade enterprises, management which is not standardized is reflected in the imperfect incentive mechanism, the off siding of managers in management, decision-making authority is not clear and many other aspects. Private foreign trade enterprises are mostly family-owned, the autonomy in management is strong, and there is no perfect management system. Due to the lack of high-tech talents, independent research and development and innovation capability of enterprises has been greatly restricted, coupled with the lack of scientific management system, resulting in low efficiency of enterprise management, the ability of anti-risk is bad, seriously affecting the sustained and healthy development of enterprises.

(5) Single channel marketing and trading patterns solidify

Most of the foreign trade enterprises lack the sense of innovation of selecting the marketing channel , most of them use the way of direct export, the marketing channel is single, production, distribution , supply and marketing chain is seriously out of line , it

do not form their own core competitiveness, its competition ability is weak in the international market. Due to the extensive mode of operation, the management system fell behind, the choice of the business model are mainly distribution, agency and processing trade, the trade patterns lack of diversity. Companies lack of international perspective, they cannot choose the right business model based on the characteristics of their trading partners, "one size fits all" trade model ignores the specificity of the trade objects, it will affect the company's strategic choice and management, it is not conducive to building a long-term partnership, it will also weakening the international competitiveness of enterprises.

3. The ways of building competitive advantages and comparative advantage for companies

Since the 2008 economic crisis, the trade protectionism raised in the West, the development of China's foreign trade enterprises facing a lot of difficulties and challenges. On the global trade environment, trade protectionism is clearly on rise. Since 2008, the international anti-dumping and countervailing actions that China faced increased significantly by the end of 2013, there were more than 20 anti-dumping cases which dismissed by WTO that U.S has taken against China. The global economic is in its recovery, but it is unstable, the economy among the countries of Western grew slowly, it has affected the development of China's export processing industry. The European debt crisis made the economic situation in Europe not optimistic, after the eruption of the financial crisis, there was a sovereign debt crisis in Europe, many European countries especially Greece were in the deep mire of debt crisis, they have no ability to attend the development of the economic and trade situation of other countries. Frequent exchange rate fluctuations, leading the Yuan appreciated continually, with the Yuan appreciation was expected to continually went on, there was a large number of international hot money swarming into China, its investment in China's virtual economy market would cause fluctuations in China's virtual economy; Meanwhile, the Yuan continued to appreciate, making the cost of production of foreign trade enterprises rising continually, weakening the cost advantage of exportation, the survival and development of foreign trade enterprises facing more and more difficulties. In this case, the foreign trade enterprises need to explore new competitive and comparative advantages, in order to enhance the company's position and image in the international market.

(1) Transfer the culture concept and explore the core technology of our own intellectual property

The rapid development of high-tech promote the prosperity of the international economy and trade ,also

change the traditional way of international competition, the era that simply rely on the cost and the number of products was gone. If foreign trade enterprises want to place in the fierce international competition, they must keep pace with times, constantly updating the technical level, changing cultural attitudes, breaking the traditional pattern of trade, enhancing the international perspective, finally blending in the world. The process of economic globalization was deepening, the allocation of resources could be optimized in the world, foreign companies need to re-examine their competitive advantages, and explore the core technologies with their own independent intellectual property, increase R&D investment and create their own brand, improve service quality and product quality, this is the basis of the sustainable development of foreign trade enterprises. Companies need to adjust their core technology according to the external economic environment and technology life cycle, integrate the strategic choice and the core competitiveness of the enterprise, in order to form the patents or business secrets.

In the era of knowledge economy, if foreign companies want to strengthen themselves, must focus on the introduction and cultivation of high-tech talents, establish a "people-oriented" conception make full use of resources and markets of both domestic and foreign countries, to achieve optimal allocation of resources. In recent years, under the call of the national policy and guidance, in the production of foreign trade enterprises, the rate of the R&D investment in the overall cost is increasing, the proportion of the workers who have undergraduate degree or above increase year by year in all state-owned enterprises, large and medium private enterprises and foreign trade enterprises, which shows that foreign trade enterprises beginning to realize the importance position of human capital in the competition of enterprises.

(2) Establish the property rights system and promote the change of innovative behavior

For the traditional state-owned foreign trade enterprises, state has jointly responsibility for gains and losses of the enterprises, which hindered the development of enterprises to some extent, the autonomy of the enterprise is poor and the initiative of reformation is not high. Accordance with the modern enterprise management system, state-owned foreign trade enterprises should divide the property, lift the unlimited liability that state owned to companies, establish the modern enterprise management system which has clear property rights and responsibilities and it also could separate the government and enterprises, make the asset ownership and corporate property rights separately, so that the foreign trade enterprises could become independent business owners.

On the one hand, reform the property rights of

these large state-owned foreign trade enterprises, regulate and supervise its listing, restructuring process and the joint venture with foreign investors; on the other hand, through mergers and acquisitions to the enterprises which have small potential and foreign trade enterprises which have only small or medium size and have operating difficulties, we could enhance their profitability and risk-resisting ability, then promote innovation ability and change their business behavior.

(3) Acknowledge the business particularity, cultivate the core expertise

The generation and growth of foreign trade enterprises would be affected by the specific historical conditions of political and economic environment, therefore, the development of foreign trade enterprises have their own peculiarities. Foreign trade enterprises need to explore the specificity of their own enterprise on the basis of potential development competitive and comparative advantages, foster the company's core expertise, transfer the potential resources of the enterprise into business productivity and competitiveness, then strive to remain unbeaten in international competition. With the changes in economic development and the international situation, the company's competitive advantage is in changing constantly. In 1990s, the key competitive advantage of China's foreign trade enterprises stems from the cost of production, due to the vast land area of China, rich human resources, so the cost of light industrial products, especially the labor-intensive products was significantly lower than other countries, foreign trade enterprises rely on this advantage to survive in the international competition. In the 21st century, the technology developed rapidly, globalization made the status of labor resources advantage declined, in this context, China's foreign trade companies need to shift the way of trade growth from extensive to intensive. Shift the advantages from cost advantages to service advantage, brand advantage and efficiency advantage, erect the credit in the industry peers effectively, highlight the characteristics of enterprises, and achieve the goal of increasing profits.

Companies need to acknowledge their own particularity, while also need to clarify the particularity of target customer base, tailor to the specific requirements of customers, then cultivate the loyalty of customers, reduce the substitutability of product, promote the scale of China's foreign trade enterprises and product quality, transform the traditional industries, then ensure the sustainable development of enterprises.

(4) Establish an international perspective, enhance competitiveness in international market

Foreign trade enterprises need to shift low-cost marketing strategy, implement intellectual property strategy and export brand strategy, achieve product upgrade and replacement through technological

innovation, promote the adjustment of foreign trade structure. With the rapid development of network technology and e-commerce platform, the world has become an indivisible integrity. Foreign trade enterprises should make full use of modern technology, gain the international market information timely and effectively, shorten the time lag of the information, explore the international market actively, finally achieve the share of resources. Foreign trade enterprises need to establish an international perspective, implement the positive "going out" strategy, achieve a successful business exchanges and cooperation, improve their own management system and mode of operation constantly, revise business strategy and achieve market diversification. As the pace of construction of FTA accelerating and with the support of policy conditions, they will be helpful for foreign trade enterprises to achieve economic and trade exchanges with Southeast Asia, Africa, America and other countries, promote the growth and expansion of China's foreign trade enterprises.

(5) Use a variety of international settlement avoid the risk of foreign exchange

As the foreign exchange market would be affected by the greater impact of the world economic and political development, therefore, foreign exchange rate is constantly changing, in order to ensure normal trade of foreign trade enterprises, foreign currency settlement should try to choose a firm monetary to do the settlement, while building a variety of foreign exchange settlement and always paying attention to the changes in the international economic situation, avoiding foreign exchange risk reasonably, finally achieving the hedge and value realization.

4、 Conclusion

Since the 2008 financial crisis, the international political and economic situation was undergoing new changes. China's foreign trade has made some achievements, but also faced many problems and challenges, in this context, foreign trade companies need to explore new competitive and comparative advantages in order to meet the challenges from domestic and international markets. On the one hand, from their own terms: foreign trade enterprises need to make the development strategy according to the actual situation of their own conditions, enhance their independent innovation capability, establish modern enterprise management system and increase the introduction and training of talents, finally achieve the development and growth; On the other hand, from the external environment: foreign trade enterprises need to develop a keen insight of the degree of economic development, make quick judgments about the changes in the international economic situation, use of both domestic and foreign markets and resources effectively

and do not rest on its laurels, go out actively, examine contemporary economic trends with the development vision and perspective, make their own place in the complex international competition. If foreign trade enterprises want to enhance their competitiveness, they need to follow these steps gradually: First change cultural attitudes, then change the system of property rights, achieve the changes of the behavior innovation of the enterprise, next change the enterprise's cultivating conditions of core expertise, ultimately re-create competitive advantages and comparative advantages of enterprises.

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11/2/2014