

Original Research Article

Study on the transformation and upgrading path and countermeasures of Zhejiang's foreign trade promoted by cross-border e-commerce

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Abstract: In recent years, with the continuous rise of cross-border e-commerce, traditional foreign trade has been affected to some extent, but it is still developing steadily. How to promote the development of traditional foreign trade with the help of cross-border e-commerce is the focus of this paper. Taking Zhejiang province as an example, this paper studies the path and countermeasures of promoting the transformation and upgrading of Zhejiang's foreign trade by cross-border e-commerce.

Keywords: Cross-border e-commerce; foreign trade; transformation and upgrading

1. Introduction

In 2018, China's imports and exports totaled 30.51 trillion yuan, while that of Zhejiang Province is 2.85 trillion yuan. In 2018, the total volume of imports and exports through the cross-border e-commerce management platform of the customs reached 134.7 billion yuan, up 50%. Cross-border e-commerce transactions in Zhejiang reached 27.56 billion yuan. [data source: xinhuanet]. With the steady growth and development of foreign trade, cross-border e-commerce is gradually developing.

On July 3, 2019, premier Li Keqiang chaired an executive meeting of the state council to formulate and improve policies to promote cross-border e-commerce and other new forms of business. The meeting pointed out that supporting the development of cross-border e-commerce and other new forms of business is an important measure to adapt to the new trend of the industrial revolution and promote the steady and qualitative improvement of import and export^[1]. The development of cross-border e-commerce promotes the development of China's foreign trade industry and offers a new path to the transformation of China's foreign trade industry. Cross-border e-commerce is the turning point for the upgrading of traditional foreign trade industry.

2. Development status of foreign trade in Zhejiang Province

2.1 Policy environment

In 2018, the construction of "the Silk Road Economic Belt and the 21st-Century Maritime Silk Road" in Zhejiang started with policies and then platforms, and the top-level framework was further built. A hub action plan and a standard connectivity action three-year plan have been issued. It is necessary to promote the "the Belt and the Road" comprehensive pilot zone in Ningbo, the trial of comprehensive reform of international trade in Yiwu, and the construc-

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tion of pilot zones for cross-border e-commerce in Hangzhou, Ningbo and Yiwu.

2.2 Geographical advantages

Located in the Yangtze river delta area and with the advantages of superior geographical environment and cluster industry, Zhejiang Province has achieved certain results. Zhejiang has extensive transportation links and a number of port cities have promoted the development of foreign trade industry and the development of cross-border e-commerce. In 2018, the throughput of Ningbo-Zhoushan port exceeded 1 billion tons, with a total container throughput of about 144.79 million TEU, ranking the first among ports in the world. In addition, Zhejiang business network has promoted Zhejiang and global transactions. In May 2019, the first cross-border e-commerce summit was held in Yiwu. In October, the first China-Europe freight train for cross-border e-commerce in the Yangtze river delta was officially launched. Under the guidance of the national "the Belt And the Road initiative", the China-Europe freight train has been developing rapidly and has been called by President Xi as an important bridge for connectivity between China and Europe.¹

2.3 Economic environment

On November 21, 2018, premier Li Keqiang presided over an executive meeting of the state council, which decided to continue and improve the cross-border e-commerce retail import policy and expand the scope of application^[1]. According to the decision of the CPC central committee and the state council, starting from January 1, 2019, China will adjust the import tax policy for cross-border e-commerce retailers, raise the upper limit of the goods subject to preferential tax policies, and expand the scope of the list^[2].

In today's economic globalization, the development of the Internet is the general trend. The emergence of cross-border e-commerce provides a new springboard for the successful transformation of China's foreign trade. In December 2019, Zhejiang Province implemented the provincial standardization strategy for cross-border e-commerce, and strengthened the construction of cross-border e-commerce service standard system to provide effective support for the sustainable development of cross-border e-commerce.

3. The dilemma of foreign trade development in Zhejiang Province

3.1 Low profit risk

Private enterprises are the main force of foreign trade in Zhejiang Province. Some enterprises rely on low profits to gain certain competitiveness in the international market.

In 2018, Taizhou Huangyan exported about 380 million yuan to the United States. After the tariff was imposed, Huangyan cannery lost its price competitive advantage and lost a large number of American customers. From January to April 2019, the growth rate of Huangyan canned exports has slowed down to 7.49% from 19.54% percent in all of 2018.²

According to statistics from Taizhou customs, in 2018, the total amount of shoes exported from Wenling reached 6.927 billion yuan, up 1.57% year on year, and the growth rate is obviously slowing down. Africa, the European Union and the Middle East are the top three export markets, with export amounts of 2.311 billion yuan, 1.184 billion yuan and 952 million yuan respectively, down 0.69%, up 0.923% and up 6.45% year on year respectively^[3].

In 2017, the exports of private enterprises in Zhejiang Province accounted for 76.9% of the total exports, and the proportion of some prefecture-level cities was also high, with Wenzhou accounting for 89.8%, Ningbo 69.0%, and Hangzhou 67.3%. In 2018, the cost of imported raw materials also rose steadily, driven by inflation, squeezing profits that were already razor-thin and undermining the competitiveness of private companies. As a result, the export growth of private enterprises slowed down. Taking Hangzhou as an example, the export of goods of private enterprises reached 188.444 billion yuan from January to October, with a growth rate of only 0.7%^[4].

¹ Data source: <http://www.cnii.com.cn/>

² Data source: <http://biz.zjol.com.cn/>

In order to stabilize customers, most enterprises still choose to persist in the case of no profit. In the long run, the capital chain of enterprises is likely to break and eventually face bankruptcy. Therefore, transformation is necessary.

3.2 Single market risks

In the context of economic globalization, the unitary market of enterprises is easy to lose its advantage in market competition, and trade frictions are inevitable. If enterprises put all their eggs in one basket, once the trade war escalates, some small and medium-sized enterprises will have no choice but to fall victim to the trade war.

Zhejiang Yaou Auto Parts Co., Ltd. exports 90 percent of its products to the United States and supplies parts to Lippert, an RV company. Anji Tianzhen Bamboo Flooring Co., Ltd. exports 70% of its products to the United States. After a 25% tariff, they have only two options: pay 15% or set up shop overseas to avoid taxes. The sudden turn of events caught the companies, which mainly export to the United States, off guard.

Reasonable adjustment of foreign trade structure to respond to the international tide in a diversified market is the transformation direction of many enterprises.

4. The basic path of foreign trade development in Zhejiang Province

4.1 Encourage innovation and increase the added value of products

Scientific and technological innovation can promote the development of foreign trade. How to increase the technical content and brand value of products is a problem that should be considered in the process of transformation, and the economic benefits of products should be improved by increasing the added value of products.

Ningbo Times Aluminum Foil Technology Co., Ltd. has made a breakthrough in the research and development of raw materials. This increases gross margins from less than 8% to 40%. Domestic ordinary coating aluminum foil is only 30,000 yuan per ton, while that imported from abroad is 90,000 yuan per ton. If technological breakthrough can be achieved, then the profit will be double.

4.2 Actively explore diversified markets

In 2018, the general office of the people's government of Zhejiang Province officially issued the implementation opinions on addressing trade frictions and ensuring stable growth of foreign trade. The guideline proposes ten measures to deal with the severe and complex international trade situation while focusing on promoting high-quality development. The second one is to actively explore diversified markets.

Yijun Luggage, the largest foreign trade luggage company in Yiwu, had been exporting mainly to the United States, accounting for 80% at its peak. Since the second half of 2018, the South American market has reached about 30%. In 2019, the market share of the United States will be reduced to 40% from 60% last year, while new markets such as Australia, Mexico, Brazil and Chile are growing rapidly. Besides the United Kingdom and Spain, a "second tier" has been established in Europe. Over the years, Yiwu has exported commodities to more than 200 countries, and its foreign trade structure is both stable and resilient. Although the United States is the second largest destination country for Yiwu's exports, its share of exports is only 5.12%, which is far less affected by trade friction than that of the whole province or the whole country.

Emerging markets can pick up some of the slack left by traditional markets such as Europe. But in every big market around the world, products from European and American markets are positioned as high-end products with higher margins, which is able to lead a company to occupy the high-end market. Once the enterprise suspends development of high-end products, instead focusing on low-end demand in emerging markets, it will bring the far-reaching impact on Zhejiang industrial transformation and upgrading.

5. Countermeasures for promoting the transformation and upgrading of Zhejiang's foreign trade through cross-border e-commerce

5.1 Select the appropriate cross-border e-commerce mode

With the continuous development of cross-border e-commerce, many new cross-border e-commerce models have emerged, such as M2C, C2C, B2B and B2C. If the traditional foreign trade industry involves in the cross-border e-commerce field, it is undoubtedly necessary to choose the cross-border e-commerce mode suitable for the development of the company according to local conditions. The following table is about the model of cross-border e-commerce and its advantages and disadvantages, just for reference.

Cross-border e-commerce model	Typical Company	Advantages	Disadvantages
M2C model	The Terminal, Pangoo	Middlemen aside, the price advantage is obvious; Enterprises directly integrate channel resources to improve customer satisfaction and provide personalized service for customers.	Poor after-sales service, especially troublesome process of return and replacement of goods; The uncontrollability of the supply chain.
C2C buying agent model	JD Overseas Shopping, Tmall Global	The number of buyers is large, who will also introduce their circle into the platform, thus helping the platform marketing.	The timeliness of logistics is difficult to control; Homogenization competition is fierce; The quality of the products varies, and fakes can even appear.
B2B model	Alibaba International Station, Made in China	Cost savings; Avoid middlemen, save time; expanding market opportunities; Accurate exposure is conducive to the promotion of brand influence.	Information is uneven and difficult to find; Weak competitiveness of leading enterprises, small and medium-sized enterprises; Fierce price competition and low profit.
B2C model	Suitable Abundant Overseas Online Shopping, Amazon	Product line is rich; Quality is easy to control; Good after-sales service and low complaint rate; High timeliness.	Capital, team, supply of goods, logistics are indispensable, so the requirements to company's size are very high; Operating costs are high and margins are slim.
Sale model	Netease Koala, Vipshop	The price advantage; The sufficient profit space; To maximize cash flow through paying first and buying later .	Low threshold leads to fierce competition; High logistics cost; Overseas sources should be plentiful.

Table 1. Comparison of cross-border e-commerce models

5.2 Recruit or train cross-border e-commerce talents

Enterprises should pay full attention to the significance of cross-border e-commerce and strengthen the professional development of cross-border e-commerce within enterprises. Although there are many similarities between cross-border e-commerce and traditional foreign trade, there are also considerable differences. If the traditional foreign trade industry wants to achieve sustainable development through cross-border e-commerce, it needs specialized cross-border e-commerce merchants. In this regard, enterprises should apply for and train specialized talents, set up specialized teams and departments, make detailed plans for the development of cross-border e-commerce in various aspects, and build a bigger platform for the development of enterprises^[5].

5.3 Implement brand strategy

In the process of traditional foreign trade reform, some high-cost, low-value-added products and OEM products in China's foreign trade are at a disadvantage in foreign trade due to high-cost logistics and inefficient customs clearance. Therefore, China's foreign trade enterprises should concentrate on accelerating the brand innovation of foreign trade

products, build their own brands, reduce the overall cost, make full use of the cross-border e-commerce platform, and promote the transformation of China's foreign trade from OEM sales to independent brand sales^[6].

In order to keep climbing in the global industrial chain and improve the pricing power and voice in the international market, enterprises of Zhejiang Province should not only work hard on the quality of products, but also think about the added value of products and establish brand awareness. The enterprise should optimize the internal and external organizational structure, standardize the enterprise system, strengthen the staff training, publicize the enterprise culture, establish the brand image, and enhance customer confidence. At the same time, the enterprise should innovate the use of online, agency, offline direct selling, production and store cooperation and other business models, in order to improve the independent marketing network.

6. Conclusion

Economic globalization is increasingly obvious, the traditional foreign trade industry is full of opportunities and challenges in the wave of globalization. Cross-border e-commerce has brought new impetus to the foreign trade, as well as new uncertainties. Cross-border electricity business enterprises should select the right business model, and improve the transformation and upgrading plan, recruit or cultivate professional cross-border electricity traders, as well as some professional management personnel. In addition to the implementation of brand strategy, enterprises of Zhejiang Province should improve the standardization and specialization, and play their creative spirit to improve the position in global value chain.

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