

Exploring the Path of Transformation and Upgradation of Guangdong's Processing Trade

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Abstract: Processing trade has developed rapidly in Guangdong since the reform and opening up, making a huge contribution to the economic development of Guangdong. However, there are also many problems in the development of processing trade, such as weak independent innovation ability of processing trade enterprises, lack of brand awareness, and low technological content of processing trade products. Therefore, studying Guangdong's processing trade and pointing out the direction and countermeasures for the transformation and upgrading of Guangdong's processing trade have important practical significance.

Keywords: Guangdong, Processing trade, Transformation, Upgradation.

1. Introduction

As a frontier region of China's reform and opening up, processing trade has always been an important driving force for Guangdong's economic development, making a significant contribution to the growth of foreign trade exports nationwide. The reason why Guangdong's processing trade has achieved such remarkable results is not only due to the deepening of China's reform and opening up and the accelerating process of economic globalization, but also due to the unique advantages of Guangdong Province. Since the reform and opening up, Guangdong Province has fully utilized its unique advantages such as proximity to Hong Kong and Macao, numerous overseas Chinese, and abundant labor resources to vigorously develop processing trade, which has achieved rapid development and made tremendous contributions to the economic development of Guangdong and even the whole country. All along, processing trade has played an important role in Guangdong's foreign trade exports, employment, and industrial competitiveness. Therefore, this study attempts to analyze the problems existing in Guangdong's processing trade, and proposes the direction for the transformation and upgrading of Guangdong's processing trade, as well as a series of countermeasures to promote the transformation and upgrading of Guangdong's processing trade. It is hoped that Guangdong can find a unique path in promoting the transformation and upgrading of processing trade, and become a model for other provinces or regions to learn from and learn from.

2. The Current Situation of Processing Trade in Guangdong

2.1. The technological content and added value of processing trade products are becoming increasingly high

All along, Guangdong's processing trade has been constantly transitioning from labor-intensive to technology and capital intensive, from early labor-intensive products with low technological content and added value such as clothing, footwear, bags, toys, to electromechanical and high-tech products represented by electronics, communication, and

information products.

2.2. Import processing and export gradually become the main mode of processing trade

The industrial division of labor pattern in Guangdong's processing trade is gradually extending from low value-added links mainly focused on processing and assembly to high value-added industrial chain links such as R&D and design, brand, key equipment, key components, and intermediate product production, gradually realizing a transformation from entrusted material processing to self operated material processing and export based processing trade mode.

2.3. Foreign invested enterprises become the main force driving the rapid growth of Guangdong's processing trade exports

In recent years, foreign-invested enterprises, especially world-renowned multinational corporations, have become an important force in promoting Guangdong's processing trade exports, occupying a dominant position in Guangdong's processing trade exports.

3. Problems in Guangdong's Processing Trade

3.1. Lack of independent innovation ability

With multinational corporations establishing research and development centers in China, Guangdong has also attracted some foreign enterprises, who have established various research and development institutions in Guangdong. Nevertheless, the core technology is still in the hands of foreigners, while local enterprises only possess mature technology, leveraging the advantages of cheap labor and lower management costs. Processing trade enterprises lack independent innovation capabilities. Although most of them are upgrading along the path of "assembly OEM (Original Equipment Manufacturer) ODM (Original Design Manufacturer) OBM (Original Brand Manufacturer)", most processing trade enterprises are currently only between ODM and OBM. Although many enterprises are now entering the research and development field and establishing research and development departments, most of them are still mainly engaged in some technological activities and low-level

development activities, and there are not many research and development activities related to high-tech fields.

The digestion and absorption of technology, as well as imitation innovation, are the key factors for underdeveloped countries to leverage their latecomer advantages and achieve economic and technological catch-up. Without the digestion and absorption of transferred technology and imitation innovation based on this, it is difficult for host countries to achieve the goal of promoting the development of independent technological capabilities and industrial upgrading through the introduction of foreign investment. At present, there is a significant gap between Guangdong processing and trade enterprises' ability to absorb technology and imitate innovation, as well as the requirements of actual industrial development and the goals of future industrial development. Therefore, to change this situation, I believe that investment in research and development funds should be increased. Nowadays, our investment in research and development funds is lagging behind the world and far behind developed countries. The low investment in research and development funds directly affects the digestion and absorption of transferred technology by processing trade enterprises. Therefore, in order to improve the independent innovation ability of Guangdong processing trade enterprises, it is necessary to solve the problem of insufficient research and development funds.

3.2. Lack of brand awareness

A brand is a name, noun, symbol, or design, or a combination of them, aimed at identifying the products or services of a particular seller or group of sellers and distinguishing them from the products and services of competitors. Overall, a brand belongs to an intangible asset and is a relationship established between a company, product, and consumer. It often carries cultural and emotional connotations, so brands can add value to products. At the same time, enterprises can also set relatively high prices for brands and obtain higher profits.

However, in today's Socialist market economy, although there are many enterprises engaged in processing trade in Guangdong, there are not many enterprises that really own their own brand products. The products exported by Guangdong processing and trade enterprises are mostly OEM based, and processing and trade enterprises lack their own brand products. After years of OEM production for foreign-funded enterprises, many of them have been able to produce products that meet international standards in quality, but unfortunately, they do not have their own brand. Taking Guangdong's traditional bulk export commodities footwear as an example, footwear exports mainly focus on processing trade and OEM exports. Relying solely on ordering and processing, without forming one's own brand, is easy to lose valuable opportunities in industrial transfer, which should be taken seriously by Guangdong footwear export enterprises and even all processing and trade enterprises. For example, most of the microwave ovens manufactured in Guangdong are exported through processing trade, and their export volume is also increasing year by year. However, among the enterprises exporting microwave ovens, few truly have their own brands, and most of them export them through OEM. Therefore, in order for Guangdong processing trade enterprises to obtain greater profit margins from processing trade, they must enhance their brand awareness and cultivate their own brand products.

3.3. The technological content of processed trade products is not high

We all know that the level of product technology to some extent reflects the productivity level of a country or region. The higher the technological content of a product, the stronger its competitiveness in the international market, and vice versa, the weaker its competitiveness. Moreover, as more and more countries restrict imports of products from other countries through the implementation of technological trade barriers, enterprises can only break their technological barriers, enter their markets, and maintain their market share by continuously improving the technological content of their products.

However, at this stage, Guangdong's processing trade still mainly relies on order production, utilizing low labor productivity to occupy the low-tech manufacturing and assembly links of the value chain, and utilizing the expansion of transaction volume to achieve the growth of trade level. As a product with a relatively high level of export structure in Guangdong, mechanical and electrical products have accounted for a high proportion of the total export volume of processing trade in recent years. However, a considerable portion of them are not capital technology intensive products, mainly consisting of low-grade, low added value, and low technological content products such as boilers, mechanical equipment and parts, electromechanical, electrical equipment, and televisions. Even in the Pearl River Delta region where processing trade is concentrated, the overall level of high-tech industries is not high, and they are still at a lower level in international division of labor. It can be seen that processing trade has not broken away from the traditional extensive growth mode, which not only brings environmental pollution but also is not conducive to the long-term development of enterprises. Therefore, as Guangdong gradually develops towards the post industrial stage and the development stage of competitive advantage transitions from investment driven to innovation driven, processing trade enterprises are required to improve their technological innovation capabilities, enhance the technological content of their products, rely on independent innovation to form their international competitiveness, and transition from labor-intensive growth to capital and technology intensive growth.

3.4. Smuggling in processing trade occurs occasionally

Processing trade is like a "double-edged sword", which has made great contributions to the economic development of Guangdong, but also brought about smuggling issues. I believe there are several main reasons for this:

(1) Guangdong is adjacent to Hong Kong and Macao, and its sea and land transportation is very convenient, making it a popular smuggling channel for smugglers. Previously, the smuggled goods were mainly daily Household goods and household appliances. Nowadays, smuggled goods mainly consist of bonded productive raw materials and specific duty-free equipment.

(2) The tax incentives for processing trade enable illegal individuals to smuggle and seek exorbitant profits. In Guangdong, the management methods of general trade and processing trade are different. A quota license system is implemented for general trade goods, and corresponding import link taxes and value-added taxes are levied. But for processing trade goods, most of them do not have license

quota restrictions, and at the same time, materials imported under processing trade are bonded. These preferential policies make criminals take risks in order to seek exorbitant profits.

(3) The regulatory model cannot adapt to the rapid development of processing trade. There are many problems with the regulatory model of processing trade in Guangdong. For example, although Dongguan's processing trade has gradually transitioned from traditional intensive industries and simple processing and assembly to technology and capital intensive high-tech industries and deep processing, it presents a situation where many enterprises are operating in decentralized factories and carrying over more and more deep processing, leading to increased difficulty and high risks in customs supervision.

4. The Direction of Transformation and Upgradation of Guangdong's Processing Trade

4.1. Transition from labor-intensive and resource-intensive to capital intensive and technology intensive

At present, the processing link of Guangdong's processing trade is mainly labor-intensive and at a low level of technological content. The export of only a few high-tech and deeply processed products often has the problem of short processing time and low value-added. The production factors such as high-tech equipment and intermediate inputs that truly reflect the technological level and factor content need to be imported from abroad. Therefore, to change this situation, we must change the growth mode of processing trade and increase the investment in scientific and technological development of enterprises.

4.2. Transform from pure OEM production to commissioned design production and independent brand production

At present, the international trade field has shifted from the era of product competition to the era of brand competition. However, most processing trade enterprises in Guangdong still mainly engage in OEM production, lack brand awareness, and do not attach enough importance to product research and development. Therefore, the government should actively encourage processing trade enterprises to innovate independently, cultivate their own export brands, continuously improve their OEM export capabilities, accelerate the transition to ODM export, and gradually achieve OBM export.

4.3. Transition from simple processing and assembly to advanced processing and manufacturing

The current situation of Guangdong's processing trade industry structure is that the production capacity of labor-intensive products with low technological content and low added value is relatively surplus, while the production capacity of knowledge intensive products with high added value and high technological content is significantly lacking. If the industrial structure optimization of processing trade cannot be achieved, it will face the challenge of deteriorating trade terms. To this end, Guangdong should innovate investment promotion methods and mechanisms, with a focus on developing high-tech industries, continuously improve the

technological content of absorbing foreign investment, attract multinational companies to transfer processing and manufacturing links and research and development centers with high technological content and value-added rates to Guangdong, and guide the transformation and upgrading of processing trade.

5. Issues to Pay Attention to in the Transformation and Upgradation of Guangdong Processing Trade

5.1. Environmental protection issues

With the continuous development of processing trade, environmental issues are also becoming increasingly prominent. Nowadays, environmental protection has always been a prominent issue in the development, transformation and upgrading of processing trade. The Pearl River Delta, which has developed processing trade, should pay attention to its environmental pollution situation and degree. The environmental compensation costs that should be borne by many export products have been largely externalized, while the environmental costs that should be borne by enterprises have been transferred to society. Although the government has also invested a large amount of funds in environmental protection, water pollution control and other issues in the Pearl River Delta still have a long way to go. Even today, where environmental protection is highly valued, some processing and trade enterprises, even leading enterprises, still illegally discharge pollutants out of consideration for cost reduction. I believe that the occurrence of environmental pollution incidents is attributed to both excessive pursuit of economic benefits by enterprises and inadequate environmental laws and regulations, weak punishment, and lax enforcement by local authorities. Therefore, in the process of transformation and upgrading of Guangdong's processing trade, it is necessary to continuously improve environmental laws and regulations, strengthen environmental management, and also strengthen publicity and education to guide processing trade enterprises to do a good job in environmental protection, properly handle the relationship between the economy and the environment, and achieve sustainable economic, social, and environmental development.

5.2. Industrial layout issues

Industrial layout refers to the economic phenomenon of spatial distribution and combination of industries within a country or region. All along, the industrial layout of Guangdong's processing trade has been highly concentrated in the narrow small areas of the Pearl River Delta, forming a clear cascade with the surrounding areas. In recent years, the rapid development of processing trade in the Pearl River Delta region has increased the pressure on the supply of land, electricity and other resources within the region, as well as environmental protection. Moreover, due to the tendency of processing trade enterprises to gather at ports with strong customs clearance capabilities, the density of regional industrial distribution is high, which brings many difficulties to import and export operations and management. Although the geographical location of the Pearl River Delta region is very advantageous, we also need to know that its land, electricity and other resources are limited, and it cannot meet the needs of all enterprises. As more and more processing trade enterprises gather in the Pearl River Delta region, their supply of electricity, water, land and other resources will only

become more scarce, which will actually inhibit the development of processing trade enterprises. Therefore, Guangdong processing trade enterprises should pay attention to the issue of industrial layout in the process of transformation and upgrading, and should not be highly concentrated in the Pearl River Delta region. At the same time, the government should actively guide the gradient transfer of processing trade from the eastern coast to the central and western regions, and accelerate the formation of a regional development pattern of processing trade with reasonable layout, obvious comparative advantages, and distinct regional characteristics. Only in this way can we better leverage the comparative advantages of Guangdong Province, leverage the role of processing trade, and promote the comprehensive development of Guangdong Province.

5.3. Labor supply issues

Guangdong has abundant labor resources and a considerable supply of labor, which has ensured the development of labor-intensive processing trade in the Guangdong region for many years. From a total perspective, the development of labor-intensive industries and labor-intensive value chain links remains the main component of Guangdong's economic development, and labor-intensive processing trade in Guangdong will have a longer life cycle. However, this development model leads to a large amount of resources being consumed in low value-added and low-level product processing in Guangdong, making it easy to be locked in labor-intensive industries and labor-intensive value chains. From a quality perspective, after years of development, although the quality of Guangdong's labor force has improved, the overall quality is still relatively low. In processing trade enterprises, a considerable number of employees only have a basic level of education or below. Many workers are limited by their own cultural literacy and professional skills, and can only engage in simple jobs, forming a group of vulnerable employment groups. Due to the transformation and upgrading of Guangdong's processing trade towards high-tech and high added value, the development of emerging manufacturing and high-tech industries' processing trade requires high-quality workers with certain professional skills and operational skills, especially senior skilled workers. However, the supply of this part of labor is clearly insufficient, and composite talents are even rarer. If effective measures are not taken to improve the quality of labor as soon as possible, the structural contradiction between the supply of labor and the transformation and upgrading of processing trade in Guangdong will affect the smooth transformation and upgrading of processing trade.

6. Strategies for Promoting the Transformation and Upgrade of Guangdong's Processing Trade

6.1. Encourage independent innovation of processing trade enterprises

Guangdong processing and trade enterprises can take the following measures to improve their independent innovation capabilities:

(1) Establish an effective innovation mechanism for production factors. Guangdong has a comparative advantage in terms of basic elements, and it is relying on abundant natural resources and cheap labor that has created the current

achievements of Guangdong's processing trade. With the development of the economy, the importance of advanced elements is increasing day by day, but Guangdong is still very short of human capital and other aspects. With the increase in investment density, the economic development of Guangdong has been constrained in the short term by the low quality of labor and high-level talent resources. Therefore, it is necessary to increase investment in human resources and create a favorable environment to promote the influx of talents. By leveraging the advantages of high salaries and relatively loose personnel systems, we aim to attract domestic and international technical, scientific, and management talents.

(2) Build a sustainable high-tech industrial park and enhance independent research and development capabilities. In order to develop the economy, various regions in Guangdong Province have established local economic development parks, and enterprises have gradually formed cluster advantages in these economic parks. However, the relevant support for enterprise research and industrial support services is not obvious enough, which restricts the transformation and upgrading of Guangdong's processing trade. Therefore, in order to provide support for scientific research and industrial services, the government can encourage the establishment of sustainable high-tech industrial parks.

6.2. Cultivating one's own export brand

At present, the field of international trade has shifted from the era of product competition to the era of brand competition. Brands, on the other hand, mean gaining huge economic benefits and a strong competitive position in the market. Therefore, in order for processing trade enterprises to occupy a strong position in the international market, they must establish their own brand and implement brand strategy. To this end, the following measures can be taken:

(1) Establish a technology innovation system with enterprises as the main body, market orientation, and a combination of industry, academia, and research, cultivate the core competitiveness of enterprises, and form a basic institutional framework for independent innovation. We need to strengthen the construction of enterprise technology centers, stimulate the innovation vitality of various enterprises, especially small and medium-sized enterprises, and encourage technological innovation and invention.

(2) Develop entrepreneurial venture capital and strengthen intermediary services such as technology consulting and technology transfer. Learn to utilize certification and intellectual property strategies to enhance independent innovation capabilities and export value added, while also exploring international markets in all aspects. This way, even if a country experiences an economic crisis, it will not have a serious impact on the enterprise.

(3) Accelerate the promotion of brand strategy, guide enterprises to attach importance to trademarks, actively apply, and attach importance to registering international trademarks. Develop and gradually promote the standards for independent intellectual property products in Guangdong Province, and make expanding the export of independent intellectual property products an important content of promoting trade through science and technology in the new era. Continuously improve the efficiency of technology introduction, enhance digestion and absorption capacity, accelerate the transformation of scientific research achievements, and

increase the protection of intellectual property rights.

6.3. Developing High tech Processing Trade

To develop high-tech processing trade in Guangdong Province, it is necessary to continuously improve the efficiency of technology introduction, enhance absorption capacity, accelerate the transformation of scientific research achievements, and promote the formation and continuous improvement of the core competitiveness of high-tech products. To achieve this, the following measures can be taken:

(1) Make full and effective use of foreign capital and activate the spillover effect of foreign capital on the economic development of Economy of Guangdong Province. We should seize the opportunity of the new round of industrial structure adjustment, guide foreign investment to tilt towards key areas and areas for the development of high-tech industries in Guangdong Province, promote the diversification of foreign investment forms, continuously increase the attraction of high-level processing and manufacturing links with foreign investment, and focus on introducing strategic projects with high correlation and long industrial chains.

(2) Introduce a series of supportive policies for processing trade in high-tech industries. For example, encouraging enterprises to participate in the international division of labor in high-tech industries. By tapping into comparative advantages, actively utilizing foreign investment to carry out processing trade, and participating in the international division of labor in global high-tech industries. At the same time, it is necessary to expand the development space of high-tech processing trade. Driven by the wave of economic globalization and regional economic integration, the domestic market has gradually become an important component of the international market. The development of high-tech processing trade needs to fully utilize two markets and two resources, and continuously expand development space.

6.4. Improving the regulatory model for processing trade

At present, many processing and trade enterprises in Guangdong have extensively utilized modern production and management methods such as logistics, e-commerce, and just in time production, putting forward higher requirements for the timeliness and convenience of customs supervision. Therefore, in order to adapt to the objective situation and the needs of enterprise development, it is necessary to actively apply and promote information technology, and continuously improve the regulatory model of processing trade. Specifically, the following three aspects of work should be strengthened:

(1) Correctly handle the relationship between "strengthening supervision" and "promoting development". 'Promoting development' is the goal, while 'strengthening regulation' is the means. In practical operations, when emphasizing "strengthening supervision", it is difficult to avoid the contradiction between strengthening supervision and increasing management costs, as well as the impact on economic operational efficiency, if only relying on increasing management links instead of adopting more efficient regulatory ideas, models, and methods. Therefore, in the still severe situation of illegal enterprises using processing trade for smuggling, it is necessary to introduce new regulatory ideas, models, and means to improve regulatory efficiency, reduce management costs, and achieve the goal of effectively

preventing smuggling while promoting the healthy development of processing trade.

(2) Vigorously promote the online supervision model. Online supervision of processing trade refers to a method in which customs extract necessary financial, logistics, production and operation data from processing trade enterprises that implement full process computer management through a computer network, and connect it with the customs computer management system to implement supervision of bonded goods. The customs uses computer means to verify the production and logistics data of enterprise processing trade, and verifies bonded goods based on the actual situation of the factory; Enterprises provide relevant data such as filing, changes, verification, import and export goods to customs through computer networks. From this, it can be seen that online supervision implements a full process dynamic management of enterprises' imports, production, inventory, exports, etc., which not only meets the requirements of enterprises operating in a market economy, but also ensures effective customs management.

6.5. Improving the Quality and Level of Introducing Foreign Investment

The low technological content of Guangdong's processing trade products is closely related to the quality and level of foreign investment introduced by processing trade enterprises. At present, the current situation of the industrial structure of Guangdong's processing trade is that the production capacity of simple labor-intensive products with low technological content and low added value is relatively surplus, while the production capacity of knowledge intensive products with high added value and high technological content is significantly lacking. Guangdong can take the following measures to improve the quality and level of foreign investment introduction:

(1) Innovate the methods and mechanisms of investment attraction, with a focus on developing high-tech industries. Guangdong not only needs to continuously improve the technological content of absorbing foreign investment, but also focuses on developing emerging industries such as electronic information, bioengineering, new materials, and high-end equipment manufacturing, actively undertaking a new round of international industrial transfer represented by the IT industry, and attracting multinational corporations to transfer processing and manufacturing links and research and development centers with high technological content and high value-added to Guangdong.

(2) Actively encourage and attract multinational corporations to establish production and manufacturing bases, supporting bases, service outsourcing bases, training bases, as well as regional headquarters, research and development centers, and procurement centers in Guangdong. Actively guide foreign investment in high-tech industries with high added value and high correlation, fine chemicals, equipment manufacturing, modern logistics, and modern service industries. The high-tech industry should not only be applied in the industrial field, but also in various fields, such as new materials, new energy, environmental protection and the Earth's oceans, modern agriculture, etc.

(3) Enhance the level of local enterprises to undertake international industrial transfer. Guangdong needs to improve its independent innovation and international market development capabilities, selectively undertake international industrial transfer, consciously use economic leverage, and

gradually eliminate enterprises with high energy consumption, high resource consumption, environmental pollution, and technological backwardness. Only in this way can foreign investment be introduced more reasonably and effectively, and the quality of foreign investment utilization be improved.

6.6. Vigorously Strengthening the Training of Processing Trade Talents

At present, the biggest challenge faced by many processing and trade enterprises in Guangdong during their development is still the issue of talent. Therefore, strengthening the cultivation of processing trade talents has become an urgent task. Processing trade enterprises can focus on strengthening the training of the following three types of personnel:

The first category is private entrepreneurs and managers. Strengthening the training of private entrepreneurs and management personnel is the most urgent issue faced by many private processing and trade enterprises, especially in some family owned enterprises. Therefore, in order to solve the problem of a shortage of management personnel and low management ability, it is necessary to train business owners and existing management backbone, change their ideological concepts, start with modern enterprise management concepts and basic knowledge, and enable them to understand modern production methods and business models, making them a powerful driving force for the modernization of enterprises and the upgrading of processing trade.

The second category is a shortage of professional and technical personnel. At present, there is a lack of professional and technical personnel, especially senior R&D personnel, in various industries of processing trade to varying degrees. Therefore, we need to fully leverage the role of higher education institutions to cultivate scarce professional and technical personnel for processing and trade enterprises. Relevant higher education institutions can consider setting up relevant majors at different levels of training in a targeted manner. For fields that are not suitable for setting up majors or have difficulties in setting up majors in the short term, they can solve this problem by flexibly setting up relevant professional directions under existing majors, offering

relevant courses, or offering in-service training courses.

The third category is skilled workers in key industries, especially senior skilled workers. Technicians, especially senior technicians, are an important force and valuable asset for enterprise technological innovation. In some industries, the lack of senior technicians has become an important factor that hinders enterprise technological innovation and industrial upgrading. Therefore, while gradually increasing investment in vocational and technical education, efforts should be made to innovate talent training models and encourage enterprises and vocational and technical colleges to jointly implement targeted technical worker training plans. Only in this way can we promote technological innovation and industrial upgrading of processing trade enterprises.

To sum up, in order to better play the role of processing trade in promoting the economy of Economy of Guangdong Province, Guangdong should increase investment in scientific and technological development of processing trade enterprises, encourage them to innovate independently, improve their brand awareness, develop high-tech processing trade, optimize the structure of export products, improve the quality and level of foreign capital introduction, and at the same time improve the regulatory model of processing trade and strengthen the training of processing trade talents. Only in this way can we accelerate the pace of transformation and upgrading of processing trade, and make processing trade make greater contributions to the economic development of Economy of Guangdong Province.

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