

Research of Export-oriented Enterprise's Cost Advantage Sources and Preventing "Two-anti and Two-safeguard" in International Trade

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Abstract

The cost advantage of export-oriented enterprise has promoted the quick increase of the export trade of China, and been the main source of the competitive advantage in the international market. Western enterprises with technical advantages may produce the products with higher quality and lower costs. So it is not the fault of the cost advantage completely when China frequently suffered the "two-anti and two-safeguard (anti-dumping and anti-subsidy, and safeguard measure and special safeguard measure)" in international trades. It is very important to further explore various effective sources of the cost advantage of export-oriented enterprises for solidifying their status in the international competition. At the same time, it is urgent to completely implement various effective strategies for preventing the "two-anti and two-safeguard" in international trades.

Keywords: Export trade, Cost advantages, Sources, Prevention, "Two-anti and two-safeguard"

As the engine of the economic growth of the country, the foreign trade has been noticed and researched by the theory circle. The gradually formed comparative advantage theory system has been the core content of the theory of international trade. Adam Smith (1776) first proposed the theory of absolute advantage, and David Ricardo (1817) proposed the theory of comparative advantage, Bertil Gotthard Ohlin and Eli F Heckscher (1931) proposed the factor endowment theory. After that, Avinash K. Dixit and Joseph E. Stiglitz (1977) proved that the scale economy and the cluster economy could induce the postnatal comparative advantage, and Gene M. Grossman and Elhanan Helpman (1990) opened out that effective research and development could also induce the postnatal comparative advantage, and Gene M. Grossman and Giovanni Maggi (2000) put forward that the outstanding human resource could also produce the comparative advantage (Xu, 2008). In the past, the natural resource and labor resource were abundant and cheap, and the labor intensive products and the mechanical and electrical products with the labor intensive characteristics produced by the export-oriented enterprises had obvious comparative advantage of low cost, and won the extensive international market by the obvious price advantage. But now, the change of the exterior environment makes the cost advantage of the export-oriented enterprises are disappearing. At the same time, other countries often adopt many measures such as the anti-dumping, the anti-subsidy, the safeguard measure and the special safeguard measure (shortened by "two-anti and two-safeguard") to protect the benefits of their own relative industries and the export-oriented enterprises of China also face the threat of losing order forms. Once the foreign order forms are lost, many export-oriented enterprises would enter into the management mess, and have to stop and change the production, even become impoverished.

1. The cost advantage has the function to significantly promote the export increase

According to the theory of comparative advantage, different products produced in different countries have the cost differences, and if various countries produce the products with relative advantages (such as low cost), the trade will make the two parties to obtain larger benefits. In 45 main mine resources of China, 25 of them rank the first three in the world, and 12 of them such as rare-earth, plaster, bentonite, barite, magnesite, and antimony rank the first in the world, and the diversity of biology variety rank first in the world. The land area ranks the third in the world, and the labor force resource ranks the first in the world. Above advantages not only make the labor intensive products of China with lower costs, but make the labor intensive production for the capital-intensive and technical-intensive products to have obvious cost advantages. In the December of 2008, the chief negotiator of WTO, Mr. Long Yongtu pointed out that the advantage industry of china was the manufacturing and the labor intensive industries (or the labor intensive production), which was the advantage that China participated in the economic globalization. With the accumulation of capitals and technologies, the export-oriented enterprises could also enter into the labor intensive industries or production parts with relatively

advanced technologies, and develop the production of products in new domains, and obtain new cost advantages. The cost advantage of export products of China is not only the edge tool to develop the international market and the base to enhance the industrial layer, but the original drive to push the sustainable growth of export trade. In thirty years from 1978 to 2008, the yearly average growth of export trade of China was about 18%, which exceeded nearly 10% than the global average export growth in the same term. For example, from 2002 to 2008, the yearly average growth of export trade in Changzhou of Jiangsu Province was 30.2%, and it was far higher than the national average level, because this city has good infrastructures and abundant labor resources, and has established a passel of scale industry clusters. In the clusters, enterprises not only divide the work reasonably, but also collaborate closely, and various resources could be optimally allocated, and a series of obvious cost advantages such as low suited cost, low information cost, and low environment cost could be embodied. Based on the cost advantage, the industrial cluster could further obtain the specialization advantage, the “regional brand” advantage, and the innovation advantage, and further enhance the industrial competition force of Changzhou, and make it become the important region in the Yangtze River Delta International Manufacturing Center.

2. Analysis of effective sources of export-oriented enterprises to obtain the cost advantages

Since 2006, the exterior environment of export-oriented enterprises has changed largely, for example, the price of raw materials rose and the material cost of products increased; RMB increased in value continually and the exchange rate risk of enterprise increased; the new Labor Contract Law was implemented and the labor cost of products increased; the trade barrier of “two-anti and two-safeguard” pricked up, and the normal product export was blocked; the domestic foreign trade policy was adjusted, and the export of the products with high pollution, high energy-consuming and resources consuming was limited; the international finance crisis broke out, and the international demand dropped. Various past cost advantage sources have been weakened heavily. In the complex and inconstant international environment, export-oriented enterprises must explore various effective sources of the cost advantages again.

2.1 Rooting in the materialized labor cost control

To the materialized labor cost means that the export-oriented enterprises consumes the costs in the labor objects and the labor measures, including the costs of the raw materials, main materials, assistant materials, and fuels, and the depreciable costs of the workshops, machines and tools. In the export-oriented enterprise, the materialized labor cost generally occupies 50%-90% of the all costs, and more costs of the raw materials, main materials, assistant materials and fuels will be consumed in the resource intensive products and the labor intensive products are more, and more depreciable costs of the workshops, machines, and tools will be consumed in the capital intensive products and the technical intensive products. To design the product structure according to the functional orientation of products and reasonably purchase and allocate the workshops and equipments according to the foreground of market demand is the key to strengthen the pre-control of the costs of products. To carefully select the suppliers and the transportation approach of raw materials and machines could directly reduce the unit costs of raw materials and machines, and it could also decide the quality of raw materials and machines, and largely influence the cost control of products. For example, whether purchasing the raw materials from the producing area or from the near material market, whether transporting the raw materials by the enterprise or by the supplier, whether buying expensive import equipments or cheap domestic equipments, when purchasing the raw materials, and what amount should be stocked all need to be compared through analyzing the economic benefits to make the decisions in favor of the cost control. The reuse of leftover materials and the reclaiming of waste materials and residues could not only control the costs, but also save the resources and protect the environment. The raw materials could be managed by the ABC analysis method, and the enterprises could reduce the uses of the materials A and the materials B or substitute them by the replaced materials by improving the product design, to further reduce the cost of materials. For the workshops and machines, the mass production could be adopted to reduce the depreciable costs allocated in unit product, and the enterprises could also reduce the fuels and exterior-purchased power costs consumed in unit product by reasonably allocating the machines and equipments (Wu, 2007, P.75-76). At the same time, the quality management should be strengthened completely to prevent the jerry-building and the behaviors of selling seconds at best quality prices. To the materialized labors cost control is the basic activity of the cost management of export-oriented enterprise, and the important source to get the cost advantage. For this problem, many Chinese and foreign experts and scholars have proposed many important theories, such as the supply chain management theory, the third party logistics theory, the fourth party logistics theory, the just-in-time production system, the flexible production system theory, and the activity-based cost management theory, which could reduce the consumption of materialized labors in the management and production, enhance the production efficiency of export-oriented

enterprises, and strengthen the management level of export-oriented enterprises.

2.2 Rooting in the living labor cost control

The living labor cost means the cost that export-oriented enterprises pay their employees for their consumed physical forces and brain forces in the production and management, and it includes the wage, bonus, allowance, subsidy, employee welfare, “insurance and housing fund”, non-currency welfare, and refusing welfare. It is the social responsibilities that the export-oriented enterprises hire and use employees, and pay for them according to relative laws. To hire employees with high education level, high skill, and high quality, enterprises must undertake higher salary costs. To strengthen the living labor cost control is to hire and use the employees who can be competent for their works at proper time and by proper salary, and it concretely comes down to senior managers’ salaries, middle-level managers’ salaries, and production technical personnel’ salaries. To strengthen the living labor cost control could not blindly reduce employees’ salaries, but stimulate employees’ work enthusiasm and creation by the salary system with the encouraging function, and reduce the employee salary cost of unit produce by enhancing the work efficiency and the learning effect. For senior managers and those employees with high skills, enterprises could give them proper shares, and let them enjoy the year-end melon-cutting, which could reduce the salary cost. Furthermore, enterprises should need a stably increasing salary plan, and offer employees the space and opportunity to use their talents, and make employees’ creative labors become the important interior drive to develop enterprises themselves. Because of its “living” characteristics, the living labor is specially emphasized by Chinese and foreign experts and scholars. Marx economics theory thought that only the living labor could create values. The modern human resource theory thought that the human resource is an active capital with more powerful increment than material resources, and it could create larger values for enterprises, and it is the key factor to win in the market for enterprises. Export-oriented enterprises should strengthen the human resource management, and hire those talents with high skill and high quality required in the production and management, emphasize employees’ education and training, and relatively reduce the cost of living labor in the high output.

2.3 Rooting in the market development and mass selling

In China, many export-oriented enterprises make their exports by accepting the batch purchasing of foreign companies, and they have not developed their sales network in the import countries, at the same time, their domestic sales network is not complete, and they rarely develop the domestic sales of products. Therefore, to get stable and long-term orders of foreign companies with reliable credit and deep strength is the very important task in the marketing. By the batch production from the batch order, export-oriented enterprises could reduce the fixed cost shared in the unit product cost, and obtain the cost advantage by realizing the reduction of unit product cost. At present, the cost advantage of Galanz microwave oven is from the large-scale production, and the continually updating of the production line and the continual enhancement of the production capacity (Liu, 2008, P.14-20). Of course, according to the persistent competitive strategy of “low price→ large order form→ mass production→ cost reduction→ obtaining profits”, export-oriented enterprises will suffer the sanction of “two-anti and two-safeguard” more easily from the import countries, and lose the market of these countries. At the same time, once foreign companies change their suppliers or reduce the stock quantity because of other suppliers’ cheaper price, the export-oriented enterprises would enter into the management mess (You, 2007, P.22-23). Therefore, export-oriented enterprises should continually develop new market, and continually seek new partners by participating in various international expositions and trade fairs to compensate the order forms which may lose. And they also could cooperate with foreign famous companies to provide products for them in the long-term, which is the important source to get the mass sales. They can also establish their own sales network such as the sales chain shops and the product exclusive agency in foreign countries, which could not only expand the sales amount, but effectively avoid the sanction of “two-anti and two-safeguard” in international trades. Export-oriented enterprises should also take precautions, just as the old saying goes, “I have people have not, I have the optimal when people have, I have the cheap when people have the optimal, and I turn to another business when people have the cheap”. When the products enter into the matured term and the winter, export-oriented enterprises must update the products and invest in new products, only in this way, they could develop new profit spaces.

2.4 Rooting in the learning simulation and technical R&D

Many export-oriented enterprises of China started from learning and simulation, and developed through many years’ capital accumulation. These enterprises have grasped the optimal opportunity that China implemented the socialism market economy system and the international manufacturing center was transferred to the southeast costal provinces of China, and they budded and grew in the seller’s market term, and became mature in the

buyer's market term, and gradually formed their own technical R&D abilities. However, comparing with the enterprises of developed countries, these R&D abilities are still on the lower layer. Therefore, export-oriented enterprises must strengthen their independent innovational consciousness, increase the technical R&D investment, overcome the leading and key technologies, and form the core competitive ability. In 1988, Deng Xiaoping definitely pointed out that "Science and technology are the primary productive forces", and Michael E. Porter said that "the technical innovation is the base for enterprises to form the competitive advantage" in the book of "Competitive Advantage". Science and technology could not only enhance the performance of products, but enhance the production efficiency, save the materialized labor and the living labor cost, and form the cost advantage in the international competition. The theory of "smile curve" tells us that the R&D design and the market sales on two ends of the industry chain are the parts with the highest added value in the whole industry chain. Export-oriented enterprises of China often sell the products to foreign companies in batch, and these foreign companies sell the products to end users, and the enterprises would also lose a part with the highest added value. It is the only way from learning and simulation to emphasizing R&D, and to possessing complete intellectual property rights for the survival and development of export-oriented enterprises. At present, though many export-oriented enterprises could implement local production improvement and technical innovation, but they could not possess the core technology and have not obtained the proprietary intellectual property rights, and they need to pay much patent royalties and special technology royalties, so their cost advantage could not be obtained really. Only by emphasizing the technical R&D in the long term, and continually getting the valuable technical innovation and getting the proprietary intellectual property rights, the cost advantage of export-oriented enterprises could be really founded (Xiao, 2006, P.89-93), and the actuality that numerous export-oriented enterprises only gain cheap manufacturing charges would be changed essentially.

2.5 Rooting in industrial cluster and establishment support

The industrial agglomeration (i.e. industrial cluster) means that the upstream and downstream enterprises, similar enterprise, and relative service industries which all are closely related with export-oriented enterprises are centralized in same one region to fully share the resources such as information, policy, talents, technologies, and relative industrial factors. The industrial cluster could make the trade costs of those enterprises in the cluster region be reduced largely, and realize the scale economy effect and the range economy effect, and accordingly enhance the cost advantage of enterprises. The upstream and downstream enterprises, similar enterprise, and relative service industries in the cluster region have the cooperative relationship, not the competitive relationship, and they could form large resultant force in the R&D and innovation, and produce large energy in the management, and dig large potential in the marketing. The large industrial cluster regions of China generally have scientific research institutions with powerful strength, and the key enterprises in the region usually have the R&D items cooperating with colleges and research institutions, which make the cluster region to become the thruster to highly effectively develop the industry chain including R&D, production, service, and marketing. The industrial cluster could quicken the technical innovation, realize the industrial updating, implement the optimization of industrial chain, and realize the production with high efficiency. In the book of "Cluster and New Competitive Economics", Michael E. Porter pointed that the industrial cluster could realize the technical innovation with low cost and large-scale high-efficiency production, and accordingly could enhance the competitive advantages of the enterprises in the cluster region completely. In addition, good suited establishments and service system could largely guarantee the normal operation of the industrial cluster. The establishments and services such as railway, highway, aviation, telecom, electric power, and finance should be guaranteed effectively. The service agencies which could offer planning, consultation, personnel training, market development, complaint response, and international cooperation should be established completely. Many public service platforms such as the information service platform, the scientific technology innovation service platform, the professional trade agency platform, and the property right trade service platform should be constructed comprehensively. Only in this way, the cost advantage of export-oriented enterprises could be more predominant, with more competitive force.

3. The cost advantage will be lost because of the "two-anti and two-safeguard" in international trades

The cost advantage of export-oriented enterprises is often embodied in the price of export products, and the scale advantage of export products, and the high export trade amount growth. If the relative industry of the import country lacks in the competitive advantage, the sales price will be reduced and the sales amount will obviously shrink, and profits will be reduced even to the bad, so this industry will be harmed essentially by the import, which is the necessary result of cruel international competition. Here, if the export price of product is less than the so-called "normal price", it may easily suffer the anti-dumping or anti-subsidy investigation even more the rigid sanction from the import country. If the export price of product is the normal price, it may easily suffer the

safeguard measure or the special safeguard measure investigation by the import country, and it still may suffer the limited measures. So the export products with the cost advantage will be largely threatened, and the cost advantage will not be edge tool to develop the international market, but the direct cause to lose the international market (Huang, 2006, P.73-75). Especially at present, US, EU, Japan, and India all have not admitted the market economy state of China. When these countries confirm the normal price of products, they will not use the domestic sales price of China as the normal price, but use the substitute country's price or the structured price, which will easily induce the overestimation of the normal price, and the result is that the export products of China become the investigated objects of "two-anti and two-safeguard". Many export products such as textiles, silks, shoes, toys, leather products, coals, metals, and cements are the products with obvious comparative advantage and strong cost advantage, and the production capacities of accouterments, cotton textiles, silks, chemical fibers, coals, and cements rank first in the world. And many industries belong to the foreign funded enterprises and the private enterprises founded by the civil capitals, and the marketization degree is quite high, and they all have certain profit space, but they still may be the sanction objects of "two-anti and two-safeguard". In Sep of 2009, EU decided to collect formal anti-dumping tax for the seamless pipes of China, and the tax rate achieved 39.2%. In fact, the price of seamless pipes sold in EU from China was not lower than the price in China, and the price of part of products had been obviously higher than the domestic price, and the phenomena of low-price dumping didn't exist, but EU chose US as the substitute country to compute the normal price of seamless pipes, and got larger dumping extent, which make the seamless pipe enterprises of China could not suffer the result. In the same month, US Commerce Department issued the anti-subsidy sanction to the petroleum pipes of China, and the general temporary anti-subsidy duties of Chinese enterprises was 21.33%, and the temporary anti-subsidy duty of Jiangsu Changbao Steel Tube Ltd. Co achieved 24.33%. These steel tube enterprises are still accepting the anti-dumping investigation of US Commerce Department, and they might face the anti-dumping sanction of 36.9%-99.14%. The punishing or limiting customs of "two-anti and two-safeguard" often make the cost advantage of relative export-oriented enterprises to be exhausted.

According to the new research report of the famous Canada brainpower institution, Fraser Institute, "World Economy Freedom: Annual Report of 2009", the economy freedom degree of China was 6.54, it was higher than the past score, and indicated that the marketization degree of Chinese economy was being enhanced continually. But, the sanctions of "two-anti and two-safeguard" are more and more frequently, and continually break the historical top level. Even up to 2016 when China acquires the complete market economic state, China will still suffer many trade barriers of "two-anti and two-safeguard". The cost advantage will be easily adjudged as dumping or accepting subsidy, which is the main cause to get the sanction of "two-anti and two-safeguard".

4. Effective strategies to preventing the "two-anti and two-safeguard" in international trades

Once suffering the sanction of "two-anti and two-safeguard", the export-oriented enterprises will lose their original cost advantage because of high customs, and drop in the management mess suddenly. The sales market of export-oriented enterprise is in foreign countries, and to enhance the sales price will lose the order form, and to reduce the sales price may suffer the sanction of "two-anti and two-safeguard", so how to price the export products and how to prevent the sanction of "two-anti and two-safeguard" have been the important problems for export-oriented enterprises of China. In the complex international trade environment, follow prevention strategies could be implemented by export-oriented enterprises.

4.1 Paying attention to earlier warning and response

Export-oriented enterprises should establish and perfect the information management system to prevent the sanction of "two-anti and two-safeguard", and form a set of perfect earlier warning mechanism which could better avoid the sanction of "two-anti and two-safeguard". The earlier warning mechanism could collect relative industrial and market information of the import countries, potential substitute countries' cost information of production factors, international commerce information of export products, which could make the export-oriented enterprises to better control the export price and amount to the sensitive countries and regions, avoid the price reduction competition, and reduce the sanction risk essentially (Yu, 2004, P.24-26). If the sanction happens, export-oriented enterprises should actively face it, and retain influential attorneys to defend and prove the cost advantage, not the dumping, and prove that they have not accepted the forbidding or actionable subsidy, and to win the lawsuit would defend the market.

4.2 Implementing the combined pricing system

Competent departments, trade association, and key enterprises could constitute the export floor price together to maintain the export order, and prevent some enterprises to viciously keep the price down, which could avoid the investigation and sanction of "two-anti and two-safeguard" (Zhou, 2005, P.26-28). And relative departments also

can lead the export-oriented enterprises to win in quality, try to enhance the technical content and added values of the export products, and actively implement the international approvals of product quality, adjust the foreign and domestic marketing strategy, and completely turn to the non-price competition including quality, brand, and scientific marketing from the price competition.

4.3 Developing the emerging market

Export-oriented enterprises should also actively develop the emerging markets such as Middle East, Africa, Latin America, India, and Russia, and the industries of these countries and regions could be complementary with China. And they can also develop new products to develop the new market without competitive component, which could also avoid the sanction of “two-anti and two-safeguard” to some extent.

4.4 Self-managing export channels

Export-oriented enterprises could also establish the product exclusive agency, sales multiple shop, China town with domestic enterprises in foreign countries, and form their own foreign sales channel and network. In this way, the export price could be controlled by the export-oriented enterprises to avoid the sanction of “two-anti and two-safeguard” because of low price. The scholars, J. Johanson and J-E. Vahlne (1990), reduced the transnational management into four stages, i.e. the anomalous export activity, the export through agency, establishing the sales sub-company abroad, and producing and manufacturing abroad. Export-oriented enterprises manage their own foreign sales channels, which could not only expand the famous degree of proprietary brand and the appropriation of the international market, but make their transnational management in the third stage.

4.5 Investing and producing products in foreign countries

To found the production base in the object country could obtain various advantageous resources of this country, and acquire the sales market of this country, and avoid the sanction of “two-anti and two-safeguard” from this country. Export-oriented enterprises could also implement the transnational merger strategy to purchase the enterprise of the object country, which could quickly obtain the workshop, technologies, brands, sales channels, and market of the enterprise, and quickly enter into the market of the object country. In this way, the survival and development space of export-oriented enterprises will be expanded largely, and their transnational management will enter into the top stage.

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