

## The Development of Processing Trade in Shanghai

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**Abstract:** As one of the most economically developed cities in China, Shanghai coupled with the superior geographical position advantage, and many other advantages, its processing trade nature also have the very rapid development. To research the development of processing trade in Shanghai is a great significance to the expanding of economy of Shanghai and to the expanding of economy of the whole country. This paper chooses Shanghai processing trade as the research object. In this article, through reading literature, finding and dealing with statistics data, the development history of processing trade in Shanghai, the current status of commodity import and export, the commodity structure present situation, the situation of commodity import and export countries and regions, the main trade situation and investment subject are analysed. It is found that the existence of labour costs increase the competition pressure of international. The appreciation of the local currency, resulting in a decline in export advantage. Unreasonable industrial structure, low value-added products, the competition pressure continues to increase, the customs has the risk, research and development investment is not enough, are also the problems of processing trade in Shanghai. Aiming at the above problems, we have put forward countermeasures and suggestions for development of advanced manufacturing and emerging industries to promote the competitiveness of products, strengthening intellectual property protection and accelerating the construction of independent brands, optimize regulation and improve fiscal and taxation policies, strengthen personnel training and department collaboration.

### 1. Introduction

Processing trade is the major way for China to participate in the international division of labour of products, and it started a little earlier in China's coastal cities, so it developed a little faster, and it has naturally achieved extraordinary results. As one of the cities with the most developed economy in China, Shanghai enjoys many advantages such as advantaged geographical position and so on, and its processing trade has developed rapidly. It is of considerable significance to research the development of processing trade in Shanghai for the economic growth of Shanghai and even the expanding of economy of China. The import and export flow of processing trade merchandise in Shanghai accounts for almost half of the total import and export flow of foreign trade merchandise in Shanghai, and even more than 50% in some years [1]. It can be seen that the development of processing trade in Shanghai plays an important role in the development of Shanghai's economy and foreign trade.

At present, the theory of some scholars have different opinions about the development of processing trade in Shanghai, some scholars believe that the Shanghai processing trade has been concentrated in the labour intensive industries, there are many serious problems such as the low added value, waste of resources, environmental pollution, general trade in Shanghai and to a certain extent, the very caused no small impact [2]. While others for Shanghai processing trade has a positive and positive scholars argue that Shanghai can carry out transformation and upgrading of processing trade, and to clean up step by step to solve the negative impact of the processing trade at the same time, the government should introduce the match of Shanghai processing trade development of policies and measures to help the processing trade enterprise for better development, so the development of Shanghai processing trade can bring huge trade to Shanghai and national

interests.

In this paper, Shanghai processing trade is selected as the research object, and the development of Shanghai processing trade is researched by consulting relevant documents ,collecting a large number of statistical data and analysing .This will provide a reference for understanding the development trend and the current situation of processing trade in Shanghai and finding out its existing problems, and then further develop countermeasures and Suggestions for the development of processing trade in Shanghai, which has certain practical significance.

## 2. Status Quo and Development Trend of Processing Trade in Shanghai

### 2.1. Development Status of Processing Trade in Shanghai

#### 2.1.1. Total Import and Export Flow of Processing Trade in Shanghai

**Table 1** The total import and export flow of merchandise in Shanghai, the import, the export flow and proportion of processing trade merchandise in 2013-2017.

	Unit: \$100 million, %				
year	2013	2014	2015	2016	2017
Total imports	2371.54	2563.45	2547.64	2503.38	2824.42
Processing trade merchandise imports	348.27	370.19	347.75	307.42	320.56
proportion	14.69	14.44	13.65	12.28	11.35
Total exports	2042.44	2102.77	1969.69	1834.67	1936.81
Processing trade merchandise exports	943.80	919.88	842.59	734.31	791.46
proportion	46.21	43.75	42.80	40.04	40.86

Data source: statistical yearbook of Shanghai statistical calendar year.

According to the data shown in table 1, the following can be seen:

The import flow of processing trade merchandise in Shanghai has declined first, then increased and then decreased slightly in the past five years .The specific situation is that in 2014, the import amount of processing trade merchandise in Shanghai increased slightly ;The import flow of processing trade merchandise in Shanghai decreased in 2015 compared with 2014.In 2016, the import flow of processing trade merchandise in Shanghai continued to decline ;In 2017, the import flow of processing trade merchandise in Shanghai has rebounded .

In recently years, the export of processing trade merchandise in Shanghai has been declining continuously. Its export flow has been decreasing from \$94.38 billion in 2013 to \$73.431 billion in 2016. The gap has exceeded \$20 billion .Although the total amount of imports of merchandise in Shanghai and a good deal of imports of processing trade merchandise in Shanghai generally declined first, then increased and then decreased, the proportion of imports of processing trade merchandise in the total amount of imports of merchandise in Shanghai is reducing year by year .The ratio of the export of processing trade merchandise in the total export of Shanghai continues to decrease with the decline of the export of processing trade merchandise in Shanghai .Both imports and exports of processed merchandise in Shanghai are more than twice the value of imports, whether rising or falling .In addition, although the percentage of import and export of processed trade merchandise in the total import and export of merchandise in Shanghai is descending year after year, the scale of export is still much larger than the percentage of import.

#### 2.1.2. Current Situation of Commodity Structure of Processing Trade in Shanghai

In 2014, the total value of imports and exports of merchandise in Shanghai reached 466.622 billion dollars, increased 5.6% and 4.5 percentage points from previous year. By means of trade

,general trade exports total \$87.973 billion, growth 7.6%.Industrial exports were \$91.988 billion, decreased 2.5%.By product category, exports of mechanical and electrical products were \$145.608 billion, rose 1.5%;Exports of high-tech products reached 89.063 billion dollars, up 0.4%.In 2016, the total amount of imports and exports of merchandise in Shanghai reached \$433.805 billion, increased 2.7 percent from previous year .By means of trade, general trade exports reached \$79.617 billion, went up 1.1%;Processing trade exports fell by 6.4 percent to \$73.431 billion .By product category, exports of mechanical and electrical products reached \$128.867 billion, reduced 0.1%;The export of high-tech products was 79.076 billion dollars, down 1.4%.

In addition, in recent years, Shanghai's ship export has increased significantly, among which processing trade is the main force. In 2017, Shanghai exported 33.37 billion yuan of ships in processing trade, up 29.4 percent and accounting for 97.6 percent of the total amount of ship exports in the corresponding period.

**Table 2** Import and export flow and growth rate of mechanical and electrical products and high-tech products in Shanghai during 2013-2017.

Unit: \$100 million, %

year	Mechanical and electronic products				High-tech products			
	imports	increase	exports	increase	imports	increase	exports	increase
2013	1283.36	1.0	1433.95	1.4	792.40	3.9	887.13	2.2
2014	1391.06	8.4	1456.08	1.5	819.23	3.4	890.63	0.4
2015	1317.75	4.3	1380.24	4.1	847.87	4.6	862.04	2.1
2016	1232.98	0.4	1288.67	0.1	777.75	1.1	790.76	1.4
2017	1314.43	13.9	1316.46	9.2	809.91	11.3	807.33	9.2

Data source: annual statistical reports of Shanghai statistics.

From table 2, the following aspects can be seen:

Firstly, the import and export flow of mechanical and electrical products and high-tech products in Shanghai increased first, then decreased, and then increased. In 2014, the import and export flow of these two types of products grew compared with the previous years. In 2015, the import and export flow of mechanical and electrical products in Shanghai showed a downward trend. In the other category, the flow of imports increased, but the flow of exports declined in 2016. In 2017, the import and export flow of them both increased significantly.

Secondly, the import and export ratio of these two types of products is not stable.

Thirdly, although the flow of import and export of these two types of products has been declining in recent years. However, the import and export flow of China's mechanical and electrical products is still far greater than high-tech products. Then, the export flow of these two types of products is greater than the import flow.

Finally, the gap between the export and import flow of these two types of products is gradually narrowing. In 2013, the balance of import and export of Shanghai's electromechanical products and high-tech products was \$15.059 billion and \$9.473 billion, respectively. In 2017, their balance of import and export was \$203 million and \$258 million, both showing significant declines.

### 2.1.3. Status Quo of Import and Export Countries (Regions) of Shanghai Processing Trade

As can be seen from table 3, in 2017, the main countries and regions exporting merchandise in Shanghai were the United States, the European Union, ASEAN, Japan and Hong Kong, while the main countries and regions importing merchandise were the US, the EU, ASEAN, Japan, Korea and Taiwan .Thereinto, the European Union is the most important country and region in the trade of

merchandise in Shanghai. According to the statistical analysis of information disclosure in Shanghai customs, it is concluded that the trade mode between Shanghai and the above countries and regions is mainly general trade mode, while the processing trade mode only accounts for a small part.

In the 2017 statistical analysis, imports and exports from the Shanghai customs area to the EU were 1.24 trillion yuan, compared with the previous years, it increased by 16.4%, accounting for 20.8% of the total value of foreign trade in the customs area during the same period, and remained the largest trading partner in the customs area .Among them, the import and export through processing trade total 24045 billion yuan, up 17% and accounting for 19.4%, of which the export value was 205.06 billion yuan, up 21.3%.Imports came to 35.39 billion yuan, down 2.9%.In 2017, the Shanghai customs area imported and exported merchandise to Japan .Of the total, 182.78 billion yuan was imported and exported through processing trade, grew 0.9% and accounting for 30.3%, of which 109.17 billion yuan was exported, declined 2.4%.Imports total 73.61 billion yuan, rose 6.3%.

**Table 3** Total imports and exports of merchandise from Shanghai to major countries and regions and their growth rates in 2017.

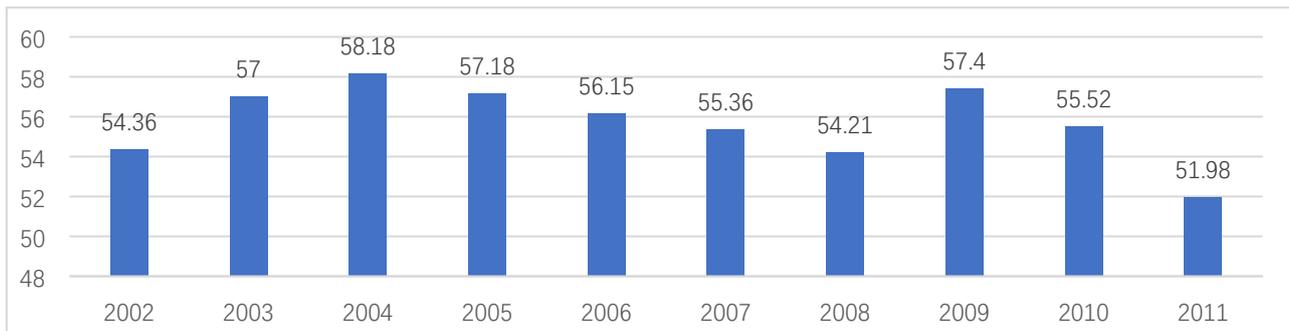
Countries and region	exports (\$100 million)	Year-on-year increase (%)	imports (\$100 million)	Year-on-year increase (%)
The United States	445.99	6.1	293.71	15.6
The European Union	329.88	16.9	636.09	20.3
ASEAN	226.06	10.3	374.52	27.7
Japan	185.50	3.3	315.28	14.6
Hong Kong, China,	172.56	1.7	3.81	89.9
South Korea	60.88	11.3	178.34	16.6
Taiwan, China	66.41	10.1	171.81	15.4
Russia	23.00	49.3	19.41	0.1
Countries along the B&R	417.74	11.7	517.18	25.4

Source: Shanghai annual statistical report 2018.

## 2.2. Development Trend of Processing Trade in Shanghai

### 2.2.1. Overall Development Trend

The processing trade in Shanghai has been developing well year by year since its emergence, especially at the beginning of the 21st century .The number of processing enterprises in Shanghai has also increased significantly .From 2002 to 2011, the export flow of processing trade accounted for more than 50% of the total export flow of foreign trade in Shanghai, as shown in figure 1.The export of traditional processing trade remains stable and processing trade in the economic zone has become the focus of Shanghai's processing trade[3].

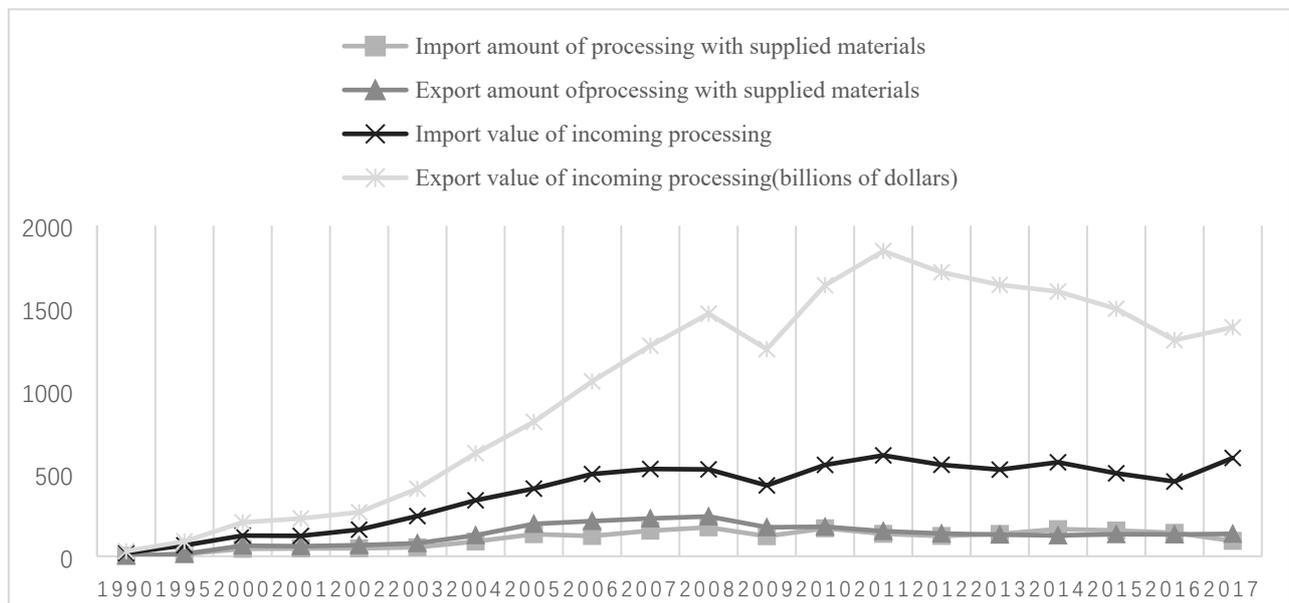


**Figure 1.** the proportion of Shanghai processing trade export commodities in Shanghai's total foreign trade export commodities.

Data source: statistical yearbook of Shanghai statistical calendar year.

### 2.2.2. Changing Trend of Trade Mode

It can be concluded from figure 2 that the processing trade of imported materials is the main processing trade mode in Shanghai, and the export flow of the processing trade of imported materials accounts for a major proportion of the total import and export flow of the processing trade in Shanghai. From 1990 to 2008, the import and export flow of Shanghai's processing trade grew slowly, while from 2008 to 2016, it basically showed a negative growth. From 1990 to 2008, the import and export flow of Shanghai processing trade continued to increase, especially the rapid growth of export flow. In 2009, both the import and export flow of the processing trade of imported materials decreased slightly. From 2009 to 2011, the import and export flow of the processing trade of imported materials increased again and reached its maximum value in 2011, with the import flow of 61.032 billion dollars and the export flow of 184.659 billion dollars. From 2011 to 2017, the import and export flow of the processing trade of imported materials declined year by year.



**Figure 2.** Main years processing with imported materials and processing with imported materials in Shanghai customs.

Source: Shanghai statistics 2017 statistical yearbook.

### 2.2.3. Changing Trend of Investment Subject

At present, the main investors in processing trade in Shanghai are mainly foreign-invested firms, while state-owned enterprises and private companies accounts for a small proportion. In the initial period of foreign trade in Shanghai, the percentage of foreign-invested companies in the processing trade was not high. It was not until the early 1990s that the ratio of foreign-invested enterprises in

the processing trade in Shanghai began to rise rapidly .Although the import and export flow of processing trade of foreign invested firms in Shanghai has decreased slightly in recent years, foreign invested companies are still very important to the processing trade of Shanghai.

### **2.3. Problems Existing in the Development of Processing Trade in Shanghai**

#### **2.3.1. Increased Labour Costs**

The wages of employees in Shanghai have been increasing, especially in the past two years. In 2016, the average wage of employees in Shanghai reached 85,582 yuan, an increase of nearly 8,000 yuan over the previous years. Among them, the higher pay of employees in state-owned companies is 134,891 yuan, that of employees in foreign organizations is 80,759 yuan, and that of employees in private companies is only 62,580 yuan. Shanghai has become one of the cities with the highest labour costs in China. Therefore, the increase of labour cost in Shanghai is one of the factors restricting the development of processing trade in Shanghai.

#### **2.3.2. The Appreciation of Local Currency Leads to the Decline of Export Advantages**

Recently, the state continued appreciation in our country, which will weaken our export price of the product competitive advantage, as well as labour costs in China, especially Shanghai labour costs, and want to make our export products of foreign currency price remains the same, will greatly reduce our country export enterprise's profit, it will cause big loss to the export enterprises in our country, and makes a serious shortage of our country export enterprise's confidence[4]. Therefore, if China's local currency continues to appreciate, it will give rise to the decline of Shanghai's processing trade export advantage, which will further hinder the development of Shanghai's processing trade.

#### **2.3.3. Unreasonable Industrial Structure and Low Added Value of Products**

China's processing trade is relatively concentrated in Shanghai, Jiangsu and Zhejiang, and its industrial distribution is relatively concentrated in labour intensive processing and manufacturing industries. With the continuous development of Shanghai's processing trade, its disadvantages have gradually emerged, such as the substantial rise in the cost of labour in Shanghai, the low added value of processing trade commodities, the appreciation of China's local currency and other factors lead to the increasing competitive pressure of Shanghai's processing trade in the international market year by year. And in the meantime, Shanghai's processing trade is also under great pressure from competition from other regions in China. In terms of commodity export, in 2017, Shanghai's export value was 193.681 billion dollars, the value of exports of Zhejiang province was 275.492 billion dollars higher than that of Shanghai, and the export value of Jiangsu province was 346.715 billion dollars, which was higher than that of Zhejiang province and much higher than that of Shanghai.

#### **2.3.4. Competitive Pressure Continues to Increase**

The industrial distribution of processing trade in Shanghai is relatively concentrated in labour-intensive processing and manufacturing industries, such as textiles, light industrial products, plastic products and other low value-added industries, which generally use a lot of energy, cause serious pollution and waste precious resources. But the technology intensive industry mostly belongs to the foreign investment, and exists less. Shanghai processing trade products mainly include mechanical and electrical products, ships, vehicles, aircraft; Optical and medical devices; Textiles. Among them, mechanical and electrical products accounted for a large percentage, while high-tech products accounted for a small proportion. Therefore, Shanghai should solve the problems of unreasonable industrial structure and the low added value of products as soon as possible.

#### **2.3.5. Customs Risks Still Exist**

In today's world, the Internet has brought great convenience to people, and overseas purchasing is one of the most convenient shopping methods for people, satisfying the consumption needs of a large number of consumers. Purchased overseas is convenient , but it also has a lot of short comings

, one of the most important thing is that it brings to the customs control the adverse, huge amount of email more resources for the management of the customs formed a considerable challenge, but the customs is not against the so-called purchased overseas mail to kill or take special measures, it provides some smugglers a great convenience, therefore it is bound to affect China's customs on the international reputation .The customs still exists the loophole that the penalty is lighter to cause to prohibit repeatedly. Therefore, there are still some risks in China's customs, and many regulatory measures need to be improved.

### **2.3.6. Insufficient R&D Investment**

For the last few years, the accelerate of R&D investment by processing trade enterprises in Shanghai has slowed down significantly. Although the Shanghai municipal government has increased a lot of welfare policies for processing trade research and development enterprises, few of these policies and measures have been implemented, which leads to the low enthusiasm of some processing trade enterprises to participate in high-tech products, which naturally leads to the slowdown of the development speed of processing trade in Shanghai.

## **2.4. Suggestions on the Development of Processing Trade in Shanghai**

### **2.4.1. Vigorously Develop Advanced Manufacturing and Emerging Industries to Improve Product Competitiveness**

Shanghai studies the status quo of the global supply chain of multinational companies and proposes policies and measures to support export-oriented manufacturing enterprises in Shanghai. We will strengthen the import distribution function of Shanghai pilot free trade zone, increase the proportion of imports of advanced technologies, key components, key equipment and other products, and support Shanghai processing trade enterprises to integrate key components and systems, master core technologies and improve production. Encourage electronic information, mobile communications, automobile and parts, integrated circuit, medical equipment, aerospace and other advanced technology spillovers development of processing trade, and promote biomedicines, emerging energy, advanced materials, saving of energy, environmental protection and other emerging industry cluster development, and further enhance the product export added value and the international competitiveness of Shanghai .Meanwhile, the Shanghai municipal government should give maximum support and convenience to processing trade enterprises, encourage the investment of high-tech foreign enterprises, and realize the innovation of the high level processing trade in Shanghai.

### **2.4.2. Strengthen the Protection of Intellectual Property Rights and Accelerate the Construction of Independent Brands**

In the early stage, China paid less attention to the protection of intellectual property in foreign trade, which seriously affected the brand image of China's manufacturing industry, and resulted in the weak technology development of processing trade enterprises, which further affected the competitive force of China's products in the international market[5].Therefore, the Shanghai municipal government should strengthen the administrative law enforcement of intellectual property protection, constantly improve the mechanisms and laws of intellectual property protection, so as to improve the market system and maintain the market order, and further promote Shanghai processing trade enterprises to actively carry out technology development.

With the increasingly intense competition in the international market, the self-owned brands of Shanghai processing trade are under great pressure to retain and establish. Therefore, the Shanghai government should provide the existing advantageous brands with welfare assistance and the potential brands being established with support assistance through corresponding policies and measures. In this way, Shanghai can accelerate the process of establishing more self-owned brands, thus promoting the "going out" of Shanghai processing trade and cultivate a large number of local multinational enterprises.

### **2.4.3. Optimize Supervision Methods and Improve Fiscal and Tax Policies**

Simplify processing trade domestic sales approval procedures. We will further improve the tax collection and administration procedures for domestic sales, and cancel the examination and approval procedures for processing trade. We will expand pilot projects for selective taxation of processing trade in pilot free trade zones, actively enlist the support of relevant ministries and commissions of the state, and promote other areas under special customs supervision that meet the requirements of their respective regulations [6].

Improve supervision and management model, and gradually realize the supervision of enterprises. For enterprises with good credit standing, transparent information and meeting the requirements of the customs, self-verification management methods will be explored.

Further optimize the existing financial capital arrangement structure, encourage processing trade companies to increase investment in research and strengthen the technological reforming, support enterprises to create and acquire brands, expand marketing channels from passive marketing to active marketing. We will improve social security policies for enterprises and reduce their operating costs.

#### **2.4.4. Strengthen Personnel Training and Strengthen Departmental Cooperation**

Shanghai should establish the cooperation mechanism between processing trade enterprises and vocational schools, colleges and universities and training institutions as soon as possible, and establish a number of training bases to carry out joint training of talents [7]. We will strengthen the talent incentive mechanism, increase the training, support and introduction of core, specialized, highly skilled and international talents in key areas, and provide strength to promote the localization of supporting services for processing and trade.

All departments in Shanghai should work together to promote the innovation of regulatory mode, support policy matching and promote the positive interaction of industrial development. In addition, each department should combine the specific needs of Shanghai processing trade development, highlight key tasks, and then formulate their own department action plans and supporting policies.

### **Conclusion**

Through the analysis of the development of processing trade in Shanghai, it is concluded that processing trade is an important form of foreign trade in Shanghai, and its export is greater than its import. The products of Shanghai's processing trade are mainly labour-intensive products, among which mechanical and electrical products, audio-visual products occupy the majority, high-tech products are less, and the commodity structure is unreasonable. Most of the major import and export countries of processing trade commodities in Shanghai belong to developed countries. The import processing trade is the major way of processing trade in Shanghai, and the principal part of its investment is foreign invested companies.

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