

# Development Countermeasures of China's Service Export under the Trend of Global Value Chain Reconstruction

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## Abstract

The world is undergoing tremendous changes, Under the impact of international trade protectionism, COVID-19 and other factors, the trend of anti-globalization is becoming increasingly obvious. The new round of scientific and technological revolution and the change of policy environment have brought the global value chain into the reconstruction stage. At present, the main development direction of the world economic system is service industry. Promoting the high-quality development of service trade will help to improve Chinese international competitiveness. Therefore, based on the export status of China's service trade, this paper studies the challenges and opportunities faced by China's service export under the trend of global value chain reconstruction, which not only helps to promote the export trade of China's service products, but also provides important guiding significance for the overall development of Chinese foreign trade. Finally, based on the challenges and opportunities, this paper puts forward countermeasures and suggestions to improve the domestic service industry system, expand international cooperation, build a risk response mechanism, develop a new model of service digitization, and build a regional value chain for reference.

## Keywords

Global Value Chain Reconstruction; Service Industry; Export Trade; Countermeasure Research.

## 1. Introduction

The theory of global value chain comes from the new form of international division of labor in the 1980s, that is, the production process of a final product can be divided into multiple processes and value-added links, and dispersed to different countries according to comparative advantages. For the purpose of realizing the value of tangible products or intangible services, multinational enterprises make the production of products no longer confined to the country, but in the global procurement of raw materials, production outsourcing, subcontracting and other different forms of product division of labor to form a global production network[1]. Compared with the traditional form of international division of labor, the deeply specialized division of labor mode of global value chain improves the utilization efficiency of resources and the production efficiency of supply chain. Therefore, it quickly promotes the development process of economic globalization and realizes the sustainable prosperity and development of the world economy. The rapid expansion of the global value chain not only contributes to economic growth, but also brings unprecedented opportunities for developing countries[2-4]. Developing countries can shorten the technological gap between themselves and developed countries, improve their productivity and management efficiency by learning advanced management experience and cutting-edge science and technology, So as to increase the added value level in China[5]. The rapid development of global value chain is mainly concentrated in

1990-2007, during which the growth rate of Global trade is twice that of GDP. However, the financial crisis in 2008 led to the reduction of investment and demand, the stagnation or even contraction of the expansion trend of the global value chain, the trade growth is no longer sensitive to economic growth, and has entered a downturn stage. The flagging state of global value chains can no longer meet the development needs of developing countries and even developed countries, coupled with the impact of COVID-19, The global value chain needs to be restructured, which is adjust the value-added links in the production process of products or services to form new organizational networks. Although the major developed countries in the core control position in the global value chain master key technologies and are at the high end of the value chain, the in-depth promotion of international division of labor provides new development opportunities for emerging economies, and the reconstruction of the global value chain can also be realized through the rise of their own ability accumulation.

Service trade is an international form of service industry. Nowadays, the growth rate of world trade in services far exceeds that of goods trade in the same period, and it has become an important part of international trade and the most active field of competition in the world [6]. The scale of China's service trade is expanding and developing rapidly, and its position in China's foreign trade is rising. This paper mainly studies how China's service industry takes measures to cope with the current global value chain reconstruction and the profound changes in the international division of labor, which has important guiding significance to the development of China's service trade

## **2. Trade Status of China's Service Exports**

### **2.1. Trade Scale of China's Service Exports**

According to the data of China's Ministry of Commerce, the total export value of China's service industry has exceeded 100 billion US dollars in 2006. China's total exports of service trade increased from US \$178.3 billion in 2010 to US \$280.6 billion in 2020, with an average annual growth rate of 6.4%. According to statistics, the scale of China's service trade ranks second in the world, and the proportion of service trade exports in China's foreign trade exports has increased from 8.8% in 2015 to 10.2% in 2019. The scale of China's service trade was affected by the impact of the global COVID-19 outbreak in 2020, which is 15.7% lower than that of the previous year. But if we do not consider the travel service trade, the export growth rate of our service trade will reach 6%. In addition, during the 13th Five-Year Plan period, the average annual growth rate of foreign investment in China's service industry was 4.4%, and the proportion of service industry increased from 69.8% in 2015 to 78.5% in 2020. The development of service industry helped China become the world's largest foreign capital inflow country in 2020.

### **2.2. Trade Structure of China's Service Exports**

The export advantages of China's service trade are concentrated in capital intensive service sectors such as commercial services, information services and transportation services. Taking service trade in 2020 as an example, China's service trade exports accounted for 26.7 percent of commercial services, 21.7 percent of telecommunications, computer and information services, and 20.2 percent of transport services, up 0.8 percent, 2.6 percent and 3.9 percent year-on-year, respectively, compared with 2019. The proportion of exports of living services such as insurance and pension services, cultural entertainment and tourism increased slightly compared with the previous year, but the proportion of exports of intellectual service trade such as processing services, maintenance services and intellectual property royalties decreased compared with 2019. The proportion of processing services decreased by 0.8% year-on-year and the proportion of maintenance services decreased by 0.9% year-on-year. On the whole, the

proportion of China's knowledge intensive service trade does not change significantly, indicating that China's service trade structure needs to be improved.

### **3. The Impact of the Reconstruction of China's Service Industry on the Global Value Chain**

#### **3.1. Challenges Faced by China's Service Exports**

##### **3.1.1. The Uncertainty Exists in the Development of Global Value Chain**

The development of emerging information technologies such as 5g, cloud computing and the Internet of things has promoted the transformation and upgrading of various industries, reduced the communication cost of international trade, and is a strong driving force for the reconstruction of the global value chain. The world economy is undergoing changes unseen in a century. Unilateralism and trade protectionism are intensifying and economic globalization is slowing down, adversely affecting the expansion of global value chains. These factors are intertwined and influence each other. On the one hand, they accelerate the reconstruction process of the global value chain, on the other hand, they make the changes of the global value chain full of uncertainty. At the same time, developed countries still dominate the global value chain, and China's service industry is still in the middle and low end of the global value chain. Many uncertain factors in the process of global value chain reconstruction have brought great pressure to China's service trade export.

##### **3.1.2. The Export Structure of Service Trade is Unbalanced**

The construction of global value chain is based on the comparative advantages of various countries. With the advantage of cheap labor, China's labor-intensive service industry occupies a certain position in the international service trade. With the rapid development of China's economy and the deepening of the division of labor system of the global value chain, some emerging countries such as Vietnam and Cambodia began to emerge. The labor force of these countries is cheaper and the market development potential is large, which means that the division of labor system of the global value chain is likely to be adjusted accordingly. China's export structure of service trade is still concentrated in low-end services, which are the first to be affected in the process of global value chain reconstruction

##### **3.1.3. The International Trade Environment is Affected by Trade Protectionism**

In recent years, the international trade environment has been turbulent, the trend of trade protectionism and anti-globalization has increased the trade cost, and the trade friction between China and the United States has had an impact on China's free trade. The reconstruction of the global value chain is also a competitive game process for the distribution of interests in the value chain, which will inevitably give birth to various trade protection measures and trade barriers, which will have an adverse impact on China's service exports. The intensification of trade protectionism will not only raise the export threshold of China's service trade, but also create obstacles to China's import during infrastructure construction, and further bring challenges to China's export of service trade.

#### **3.2. Potential Opportunities in China's Service Exports**

##### **3.2.1. Favorable Opportunity to Climb the Market of Medium and High-end Service Industry**

The new round of scientific and technological revolution is the endogenous driving force to promote the reconstruction of the global value chain. The technological progress of the industry is closely related to the relevant infrastructure construction. At present, China has become a big country in service trade, but it can only occupy the middle and low-end market in the service export market, and developed countries still occupy an absolute advantage in the High-end

market of service industry. With the increase of China's national policy support in recent years, China's service industry attaches great importance to the R & D of core technologies and the upgrading of basic supporting facilities, which improves the international competitiveness of China's service industry to a certain extent. It is a good opportunity for China's service industry to climb the medium and High-end market in this round of global value chain reconstruction.

### **3.2.2. Favorable Opportunity to Promote the Transformation and Upgrading of Service Industry**

"Middle and low-end diversion" is the most important feature in the reconstruction process of global value chain, which means that some low value-added enterprises will be diverted to other countries or regions with more comparative advantages. Facing the fact that China's endowment advantage is weakening, large domestic service enterprises should actively grasp the opportunities brought by the reconstruction of the global value chain, subdivide their whole links, and systematically peel off or outsource some non-core production links, which is not only conducive to improving the efficiency of service enterprises. It also helps to promote the transformation and upgrading of China's service export trade structure and even the whole service industry.

### **3.2.3. Favorable Opportunity to Promote the Integration of Service Multinational Corporations into the Global Value Chain**

Large multinational corporations were in the leading position in the previous global value chain system, but other small, medium and micro enterprises, especially small and micro enterprises, were in the low-end or even marginal position in the global value chain. The development of global value chain is mainly dominated by transnational corporations. Compared with developed countries, China's service enterprises lack large transnational corporations with strong strength. This global value chain reconstruction is a favorable opportunity for the Chinese government to vigorously support large domestic multinational corporations and integrate into the value chain. It is also an important opportunity for other small, medium-sized and micro service enterprises to enter the value chain under the leadership of industry leaders and the strong support of the state.

## **4. Development Countermeasures and Suggestions of China's Service Industry Export**

### **4.1. Adhere to Innovation Driven and Improve the Domestic Service Industry System**

A new round of technological revolution promotes industrial transformation and upgrading and the upgrading of consumer demand, which puts forward new requirements on the scale and structure of the service industry. In order to build a new system of high-quality, efficient and competitive service industry, it is necessary not only to consolidate the foundation of the real economy and service industry, but also to adhere to scientific and technological innovation as the internal driving force, promote the upgrading of industrial foundation and the modernization of industrial chain, and provide an efficient development path for the diversified and sustainable development of service industry. We should follow the new trend of scientific and technological revolution, actively encourage all kinds of advanced science and technology to upgrade the foundation of traditional service industry, further introduce and train outstanding personnel in service trade, vigorously support science and technology as the driving force, encourage independent research and development and design, innovate research and development mechanism, and promote the innovative development of service trade. Focus on the mutual promotion of trade in services and trade in goods, and expand the industrial boundary and profit space of traditional trade in services. Encourage the deep integration of

producer service trade and advanced manufacturing industry, change China's traditional concept of taking products as the center and turn to the concept of taking products, services and the whole as the center. Increase the investment in product research and development, cultural creativity and intellectual property rights, and promote the reform and development of China's health, entertainment, tourism and other consumer service industries. The reconstruction of the global value chain guides China's service trade enterprises to strengthen the development concept by using the thinking of "diversion of medium and low-end". In addition to continuously improving the quality of China's service industry, we also need to improve the domestic service industry chain according to the "short board" of existing industries, and systematically peel off or outsource the low value-added links of the service industry. This will not only help to improve the efficiency of service enterprises, but also help to optimize the export structure of China's service industry, so as to promote the transformation and upgrading of service industry.

#### **4.2. Promote the Digital Transformation of the Service Industry and Develop a New Mode of Competition**

At present, digitization has become the only way for global economic development. The outbreak of the epidemic has accelerated the global digitization process. Digital industrialization has become an important force to promote the reconstruction and development of the global value chain. The development of digital technology revolution has a far-reaching impact on the pattern of international division of labor. Industrial digitization has enabled the transformation and upgrading of traditional industries, giving birth to new trade activities in service trade. The digital transformation of service trade has a profound impact on trade mode, trade structure and trade pattern. It not only improves the efficiency of service trade, but also promotes service trade to show new business forms, new models and new trends. The digital technology revolution has profoundly changed the development of the service industry in the direction of intelligence and customization. At present, China attaches great importance to the development of digital information technology. Relying on new business forms and new trade trends, we can effectively reduce barriers to service trade, enhance the competitive advantage of China's service enterprises, and strive to change China from "following" to "leader". Lay a solid foundation for China to build a new pattern of domestic and international double circulation. Facing the new business forms and models of service trade, the government should implement relevant fiscal, tax and financial policies and trade supervision models to provide a foundation and guarantee for service trade. At the same time, China's service enterprises should also participate in the construction of digital and information infrastructure, promote industrial transformation and upgrading, and promote the high-quality development of the new model of service trade.

#### **4.3. Build a Risk Response Mechanism and Strengthen Industrial Safety Protection**

Under the assumption of perfect market economy, different countries and regions carry out professional division of labor according to their different factor endowment advantages and the division principle of comparative advantage. Division of labor is one of the most basic characteristics of market economy. The continuous subdivision and deepening of division of labor is the best way to maximize efficiency. As the participating countries in the division of labor and trade, they can obtain benefits in the international division of labor and the global value chain to achieve "mutual benefit and win-win situation". However, in reality, there is no perfect assumption of market economy. In fact, various frictions and contradictions will arise between countries and regions due to the distribution of interests, so there will also be problems of security and stability in the industrial chain supply chain. On the other hand, there are differences in factor intensity in the production links of different products or services,

which determines the technology intensive and knowledge intensive. The threshold and professionalism of High-end intensive industries such as intensive industries are becoming higher and higher, and then they are in a monopoly position in the global value chain, threatening countries in an unfavorable position in the division of labor in some key technologies. At present, China is still at the low end of the global value chain, and has also encountered various forms of trade protection measures and "necks" in core technology. According to the meeting of the Political Bureau of the CPC Central Committee to review the national security strategy (2021-2025), China must firmly establish the overall national security concept and speed up the construction of a new security pattern, comprehensively improve national security capacity. China should establish a sound risk early warning and response mechanism, timely obtain market information and policy information, actively respond to litigation and reasonably defend. When facing the investigation risk, we need to quickly and comprehensively understand the information, reduce the response of individual enterprises through collective cooperation through the strength of the Industrial Federation, and then enhance the anti-risk ability of the whole service industry. In addition, service enterprises should also set up corresponding safety supervision departments to continuously improve their own risk prevention level.

#### **4.4. Actively Participate in the Formulation of International Economic Rules and Expand International Cooperation**

Although the scale of China's service trade continues to improve and has developed into a large country of global service trade, China's service enterprises still fail to have a strong voice in the international market. The deconstruction and reconstruction of global value chains is under way, China should seize the opportunity to expand international cooperation in service trade, actively participate in the formulation of global economy and service trade rules, and enhance the voice of China's service trade in international rules. The high-quality development of service trade needs to be based on a sound management system and regulatory regulations. China can strengthen learning and exchange with powerful countries in service trade, learn from their relevant experience in management, law and export promotion, and provide comprehensive legal protection and efficient management system for domestic service enterprises. While promoting the construction of supporting service systems in the fields of scientific and technological services, digital technology and cross-border payment, we should not only strive to build high-quality Chinese brands, but also strengthen exchanges and cooperation between domestic and international organizations. In terms of cross-border data flow, intellectual property protection and relevant trade dispute settlement in international service trade, China's service industry should actively expand the scope of cooperation with relevant international institutions, and actively provide Chinese wisdom in Global trade rules, especially in the formulation of international rules for digital service trade, so as to strive for dominance and voice.

#### **4.5. Build a Regional Value Chain and Deepen All-round Cooperation**

Global production network has global characteristics in the formation of global value chain division system in the past, but the current reconstruction of global value chain shows the trend of regionalization. The regional integration of traditional international economic theory mainly has the advantage of reducing the transaction cost of each other in geographical space, while the modern regional integration not only has the advantage of geographical interval, but also has the advantage of system. Without the role of institutional factors, global division of labor and cooperation cannot be achieved only by relying on technological progress. Nowadays, facing the adverse impact and impact of anti-globalization, the reform of WTO is difficult to sustain. The development of various bilateral and regional trade agreements promotes the development of global value chain in the direction of regionalization. China should comply with

the reconstruction trend of global value chain and further deepen cooperation with important trading partners, especially those countries that have signed free trade agreements with China. We should focus on one belt, one road, and the other, and further develop the corresponding service trade market, and further promote the diversification of service trade market. Taking the implementation of the regional comprehensive economic partnership agreement (RECP) as a breakthrough, we will continue to consolidate the institutional foundation of the Asia Pacific regional value chain and actively expand cooperation with ASEAN in service trade. Take the signing of a Bilateral Investment Agreement between China and the EU as an opportunity to explore joining the CPTPP, deepen All-round, wide-ranging and multi-level regional cooperation, and lead the reconstruction and optimization of Asia's service industry system

## 5. Conclusion

Under the background of globalization, China has always been committed to building an open and win-win economic community with an inclusive and win-win outlook for mankind. Countries all over the world integrate and influence each other in the process of globalization, but now the trend of anti-globalization is more and more obvious, and the world economic pattern is becoming more and more complex. This complex trend will exist for a long time in the process of global value chain reconstruction. Facing the complex and changeable world situation, China has put forward the major strategy of taking the domestic cycle as the main body and the domestic and international double cycle, so as to break through the "blockade" for China's high-quality development. If China's service industry wants to climb to the middle and High-end links of the global value chain, it needs to consolidate its own foundation of traditional service trade, be good at seizing the development opportunities, and constantly improve the international competitiveness of China's service industry and its leading and voice in the global value chain.

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