

Research on the International Growth of SMEs in Developing Countries in the Context of GVCs Division of Labor

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Abstract: *At present, economic globalization has become an important trend and characteristics of the world economic. Many small and medium enterprises (SMEs) in developing countries are going global by embedding themselves in global value chains (GVCs). However, the traditional way of simply integrating into the global value chain division of labor system, as well as the long-term lock at the lower end of the value chains has not changed. It also brings a series of unsustainable problems such as unbalanced coordination and excessive consumption of resources and environment in developing countries. This paper attempts to explore the causes of low-end localisation of SMEs in developing countries in the context of global value chain division, proposing to crack low-end locking related path selection, in order to provide some valuable thoughts for the healthy development of some SMEs in developing countries.*

Keywords: GVCs division of labor, SMEs in developing countries, Internationalization, Low-end locking.

1. Introduction

With the increasing frequency of international trade across time and space, and the decreasing of the spatial distance of economic dialogue today, economic globalization and the division of labor in global value chains are deepening and intensifying. The global production system, dominated by large multinational corporations in developed countries, has been continuously deepened and refined. The production process of some products is arranged globally according to the resource factor endowment of different countries or regions. These provide great opportunities for SMEs to embed themselves in the global value chain and realize international growth. However, limited by capital and technology, SMEs in developing countries are locked in the value-added processing and assembly link in the global division of labor and collaboration, which has become a bottleneck for SMEs in developing countries to move up the value chain. Previous studies have mostly focused on the discussion on the demand for technical resources and core competence in the transformation and upgrading process of SMEs in developing countries under the global division of labor system, while how to integrate relevant resources to obtain the specific path of core competence improvement has been rarely studied. In fact, the trend of deepening economic globalization will not be reversed. How to promote the transformation and upgrading of SMEs in developing countries in the process of deeper integration into the global economy is a key issue concerning strategic development[1]. This requires not only a scientific and systematic understanding of the strategic opportunities brought by the international growth of SMEs, but also an active and prudent view and objective grasp of the strategic positioning in the global industrial pattern. Only in this way can strategic opportunities be truly transformed into a golden period of development in the tide of economic GVCs division and ignite a new engine of its transformation and upgrading in the all-round integration into the global division of labor system.

2. A New Trend of GVCs Division of Labor

2.1 Global Decomposition of Value Chains

Under the open conditions, the international division of labor has certain demand of factor intensity when it goes deep into the same industry and the same product value chain[2]. Before the final product is produced, it is bound to involve multiple cross-border flow problems of product links, thus forming the deepening effect of global value chain division of labor. That is to say, the international industry and product value appreciation led by large transnational corporations in developed countries greatly promote the cross-border flow of a package of production factors such as capital and technical personnel management.

Specifically speaking, on the one hand, cross-border flow of elements based on production links and production processes fully realizes the global decomposition of the value chain. The upstream link of the value chain, once firmly controlled by developed countries, has gradually undergone international gradient transfer, which undoubtedly provides important opportunities for developing countries to establish new industries and thus promote the transformation and upgrading of industrial structure. Take China as an example. In the process of integrating into the division of labor system of global value chain, China starts from the initial investment attraction to the later investment selection. Probing into the texture of such change, it is not difficult to find that the introduction of advantageous elements to undertake the transfer of the international industry and the value-added link of products also realizes the process from passive need to active selection in the specific stage of development. On the other hand, with the rapid development of Internet communication technology and the increasing openness of various economies, more and more enterprises break the boundaries of time and space, and then actively seek to use

high-quality resources in the global scope, providing support and possibility to maximize the utilization efficiency of various resources.

2.2 The Strategic Adjustment of Dynamic Balance

In the context of global value chain division of labor, the nature of cross-border trade has undergone fundamental changes, that is, from the traditional form of division of labor in order to realize the value of cross-border flows, to ensure the completion of global production of cross-border flows. Along with the rapid development of international production division, and due to the fact that small businesses in developing countries is relatively at low-end position in the global industrial chain, in the process of integration into the global production network dominated by transnational corporations, their production behaviors tend to be highly dependent on the market of developed economies, which forces developing economies to continuously upgrade and significantly expand the scale of consumer market. This makes the global value chain strategy of multinational companies in developed countries pay attention to the comparative advantages of countries and regions, and also consider the location of the final consumer market, thus forming a dynamic balance.

At the same time, transnational trade implemented through embedding into the global value chain provides learning and training opportunities for countries that are excluded from the international division of labor due to the lack of comparative advantages, including the active spillover from accepting the verification and identification of transnational companies. One indisputable fact is that the explosive growth of China's export trade, in essence, is the inevitable result brought by China's participation in the global division of factors and seizing the historic opportunity of international gradient transfer of industry and product appreciation.

2.3 The Profound Remodeling of High-end Backflow and Low-end Transfer

At present, the development strategies such as advanced manufacturing and industry 4.0 promoted by developed countries are, in essence, for the outstanding performance of the new round of scientific and technological revolution and industrial revolution. It also shows that knowledge and technology are endowed with newer and higher connotation under the division of labor in the global value chain, which means if countries in the world want to win a place on the global scale, they must put technological innovation and industrial upgrading in a more prominent position.

It should be noted that the adjustment and remodeling of global value chains are emerging because of technological innovation and industrial upgrading. In essence, the cross-border spread and diffusion of technology is not only a possible and passive spillover, but also a necessary and active spillover. Obviously, new technological innovation and industrial upgrading will inevitably change the pattern of global value chain, as well as affecting and reflecting the layout of global value chain. This influence and reflection includes not only the change of GVC itself, but also the reconfiguration of the status of different countries in GVCs. For developing countries, it is not only an important

opportunity but also a major challenge for them to fully integrate into the global division of labor and thus force industrial upgrading and technological progress.

3. Cause Analysis of Low-end Locking of SMEs in Developing Countries

3.1 Excessive Reliance on Comparative Advantage

SMEs in developing countries are integrated into the international vertical division of labor system according to their comparative advantages and practical conditions. Most developing countries rely on labor cost advantage, combine their own endowment conditions to embed into the global value chain by subcontracting mode, and form the global competitiveness of the processing manufacturing industry. Due to the low entry threshold of these production links, the increase of economic benefits can be realized soon. A large number of SMEs in developing countries make use of the same comparative advantage to invest into the system integration cooperation network in developed countries. Being international subcontracting, they mainly undertake labor-intensive low value-added links, and are more likely to be locked in the global industrial chain due to the initial specialization and the path dependence on processing trade. Meanwhile, excessive division of labor is an important bottleneck restricting the development of SMEs in developing countries. The reason is that enterprises put high-quality resources into the fragmented production link at the lower end of the value chain, which weakens the investment at the higher end of the value chain, resulting in the difficulty in forming their core capabilities. When the comparative advantage is gradually lost and the core competence has not been formed, the strategic space of comparative advantage of SMEs in developing countries is getting smaller and smaller, and the comparative advantage of participating in the global division of labor and cooperation network is weakened. It is inevitable for those SMEs to be locked at the low end of the value chain for a long time.

3.2 Monopoly Competition in Developed Countries

Compared with SMEs in developing countries, large multinationals in developed countries have many upstream advantages, such as advanced technology, symmetrical information resources, mature market and low transaction costs, etc. In addition, the differences in the comparative advantages of large transnational corporations in developed countries and SMEs in developing countries lead to different participation roles in the global division of labor system. Large transnational corporations in developed countries play a dominant and dominant role, and have the ability to construct the core links and the right to speak. On the one hand, the high-end manufacturing strategy of developed countries separates the key business from the peripheral business, firmly grasps the production of the core link of the key technology, and subcontracts the peripheral business to the corresponding countries and regions with endowment of factors in the way of fine cutting, so that the production factors are fully optimized. On the other hand, in order to maintain their own advantages and maintain price monopoly comprehensively, large transnational corporations in

developed countries compress the space of value creation by reintegrating and reversely absorbing the innovation of developing countries, so as to achieve continuous control over the division of labor in the global value chain[3]. What is more serious is that the rise of a large number of developing countries in low-end manufacturing by virtue of low-cost advantages has exerted a huge impact on SMEs in other developing countries from the high and low dimensions. Long-term OEM mode not only makes SMEs in developing countries fall into a dilemma of low-end locking, but also brings new challenges to them from internal factors. In the face of challenges, if they start from the perspective of dynamic comparative advantage, breaking through low-end locking and taking knowledge creation and intelligent manufacturing as the entry point of industrial upgrading will become the key to rebuild momentum.

4. Opportunities for Developing Countries to Grow Internationally under the Division of Global Value Chains

4.1 Opportunities for Innovation-driven Development

An important trend in the evolution of global division of labor is the increasing global cooperation driven by innovation. On the one hand, technological innovation products are more about the joint participation of multiple subjects, which cannot be borne by a single enterprise. On the other hand, information technology advances by leaps and bounds for more and more enterprises to break geographical and national boundaries, thus actively seeking resources in the global scope to provide support for their use. This undoubtedly provides an important strategic opportunity for SMEs in developing countries to gradually and comprehensively integrate into the global innovation chain on the basis of joining the global manufacturing GVC, so as to realize the previous factor-driven and investment-driven development and provide an innovation-driven track of development.

4.2 Opportunities to Expand the Service Sector

The expansion and extension of global value chain from manufacturing industry to service industry, or the international gradient transfer of service industry chain, leads to the rapid expansion of global value chain of services, that is, different links and stages of services are dispersed and allocated to countries and regions with different factor endowment advantages. The globalization and fragmentation of the service industry chain also make it easier and faster for developing countries, which are lagging behind in the development of the service industry, to obtain global high-quality intermediate service products through external factors of the division of labor in the global value chain, providing important opportunities for the development of service trade and service industry, especially high-end service industry.

4.3 Opportunities for The Deep Evolution of Economic Rules

The trend of economic globalization is the deep evolution of global value chain dominated by large multinational

corporations in developed countries. High quality and high standards have become important requirements and guarantees for the development of a new round of international economic and trade rules, giving birth to a new round of regional trade liberalization. High standards of international rules will undoubtedly raise higher requirements for enterprises that want to gain a place in the new global economic transformation and value chain restructuring, and even dominate the global value chain, which is in essence a process of forcing reform by opening up.

5. Conclusion and Countermeasures

Global value chain is the value dimension to analyze the nature and connection of global production network. Under the global value chain division of labor system, small and medium-sized enterprises in developing countries are facing the dilemma of low-end locking. When the traditional way of development, which is simply integrated into the global value chain division of labor system to expand exports, has gradually come to an end, it is not only urgent but also wise to actively and timely adjust the open strategy of participating in global competition and cooperation. Therefore, the issue facing small and medium-sized enterprises in developing countries is not whether to further integrate into the GVC system at all, but how to further integrate into the global division of factors to better promote their industrial transformation and upgrading. To this end, we need to pay attention to the following issues, based on the current and long-term, and taking into account both domestic and international issues.

5.1 Deeply Integrating into the Global Division of Labor System with Comparative Advantages

According to the main features of the present factor endowment structure of SMEs in developing countries and their actual and relative position in the global division of labor system, it is still necessary to participate in the international division of labor in a passive mode. Some representative views hold that under the condition of market opening, the transformation and upgrading direction of SMEs in developing countries is to achieve the climbing at both ends of the smile curve. But the dynamic change of a country's comparative advantage is closely related to the current comparative advantage. It means that, at the present stage, technological advantages are not obvious and labor endowment advantages are fully integrated into the global division of labor, which can not only obtain more dividends of international division of labor, but also promote the upgrading of industrial structure and the linkage development of emerging industries, and expand the value-added space of global value chain division of labor, due to the spillover effect of capital and technology and the learning effect of local enterprises.

5.2 Comprehensively Enhancing the Capability of Taking Root in Global Value Chains

Under the division of labor system of global value chain, cost is the main variable considered by large multinational corporations in developed countries when they carry out value increment and resource allocation through the global

production network. From the perspective of the sensitivity of different value-added links to the change of factor cost, the chain in the middle and low end is often sensitive to the change of factor cost. Therefore, with the relative changes of factor costs in countries or regions, the geographical allocation of large multinational companies in developed countries in the global production network will result in spatial drift. This means that SMEs in developing countries are indeed facing potential risks of economic duckweed, and improving the status of international division of labor should be gradually transformed into an integrator with the ability to integrate global resources, instead of merely being an integrator with factor advantages. The capacity to build trade, investment and value chains through continuous upgrading of the layout will be comprehensively enhanced to take root in global value chains.

5.3 Technological Progress and Brand Development

Technological progress is the decisive factor to actively participate in the international division of labor and occupy the commanding heights of the global division of labor chain. In fact, to improve the status of the country in the global division of labor system of products, technological progress has never been just a technical issue, but a total factor integration issue including system matching, marketing channels, etc. With technological progress, we will gather more comprehensive and high-quality international factors of production and conduct reverse innovation in developing countries. Thus, technology spillover can be generated through the correlation effect between industrial chains, which injects new impetus into the innovation-driven development strategy of SMEs in developing countries. At the same time, it should also be noted that technological progress can only enable enterprises to gain competitive advantages, which does not have long-term stability and is easy to be imitated by backward enterprises and lose their comparative advantages. Therefore, technological progress combined with brand development is an important path for an enterprise to obtain its core competitiveness and benefit its benign and sustainable development. Throughout the development of global enterprises, any internationally renowned enterprise has a strong corporate brand. If SMEs in developing countries want to realize the upgrading of global division of labor value chain, they must condense global intelligent elements with technological progress and serve the needs of international advanced production factors to gather to developing countries with brand development.

5.4 Internal Alliance of Integrated Industry

Small and medium-sized enterprises, especially small and micro enterprises in developing countries, generally do not have the strength of research and development investment, and it is difficult for them to break through the key links such as technological innovation and technological innovation by themselves. In addition, in the international market, small and medium-sized enterprises are often restricted by the technological innovation of developed countries and exploited by their interests, and the impact of the strength enhancement of a single small and medium-sized enterprise is limited. The internal alliance of integrated industry is no longer limited to the industrial aggregation in geographical

location, but the integration of soft resources between enterprises[4]. It is also about deep strategic interconnection and interaction. In order to weaken the control of large multinational companies in the international market, enterprises gather together to make products, and reconstruct the balance of international division of labor with developed countries.

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