

# The Influence of the Belt and Road Policy on International Trade

Xinrui Zhao

School of Economics and Management, Nanjing University of Science and Technology, Nanjing 210018, China

carol\_zhaoxr@163.com

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**Abstract:** According to the theory of international trade, the market choices of enterprises' exports are mainly affected by the size of export markets, trade liberalization, and financial development, and the facilities, links, and trade flows of the "One Belt and One Road" construction will serve precisely to create new market demands, improve trade liberalization and promote financial innovation. To this end, we can take advantage of this and adopt appropriate new strategies in opening up new markets for exports, improving trade facilitation, and building a major financial artery to expand exports to countries along the "One Belt and One Road" initiative, thus promoting diversified new developments in the export market.

## 1. Introduction

The "Thirteenth Five-Year Plan" outlines that: To improve the strategic layout of opening to the outside world and accelerate the optimization and upgrading of foreign trade, we must "optimize the distribution of foreign trade, promote the diversification of export markets, and increase the proportion of emerging markets". This not only pointed out specific ideas for the implementation of the concept of open development during the "Thirteenth Five-Year Plan" period and the construction of a new pattern of opening up in an all-round way, but also raised an important topic for the academic community to urgently study under the new economic normal: in optimizing the layout of foreign trade How to increase the proportion of emerging markets, and promote the diversification of new developments in the export market. "Diversification of export markets" is an important foreign trade development strategy implemented by the Chinese government to expand exports, diversify risks, and resist external demand shocks. Although the strategy has been proposed for more than 30 years, although it has achieved certain results, the overall effect is still unsatisfactory. In addition, since the international financial crisis in 2008, the world economy has undergone profound adjustments, and global trade has subsequently entered the "new normal" of low-to-medium-speed growth, which has caused great impact on China's trade growth and the diversified development of export markets. With various factors superimposed, the diversified development of China's goods export and export markets is increasingly challenged. According to the data from the Ministry of Commerce, since 2015, China's cargo exports have been negative growth for two consecutive years, with a year-on-year decrease of 7.7% in 2018. Under the above background, as the main way for developing countries to promote economic and trade development, "diversification of export markets" has aroused the attention and research of domestic and international academic circles and has achieved many important research results. For example, Qian Xuefeng and Xiong Ping analyzed the dual margin of China's export growth and its determinants based on the theory of heterogeneous corporate trade. According to its research, China's export growth is mainly achieved along intensive margins, with a low margin of expansion. China's export enterprises should increase their margins of expansion by implementing a diversification strategy for export markets.

The above research laid a good theoretical foundation for expanding China's cargo exports and further promoting the diversified development of export markets. However, existing studies mainly

focus on the three aspects of the theoretical explanation, spatial model, and influencing factors for the selection of export markets of enterprises, focusing on rational research, and on how to use the new strategic opportunities to further promote China's exports from the policy level. The new development of market diversification is obviously insufficient.

In fact, the construction of the "Belt and Road" is both a new engine for the recovery of the world economy and a new engine for the further development of China's export market diversification. According to the theory of international trade, the determinants of firms' export market choices are mainly the size of export markets, trade liberalization, and financial development levels. The "One Belt, One Road" infrastructure, such as the establishment of infrastructure links, unimpeded trade, and financial cooperation, will play a key role in stimulating and creating new market demands, enhancing trade liberalization and facilitation, and promoting financial innovation and development. This will greatly promote China's trade development with countries along the Belt and Road and create new historical strategic opportunities for the further development of China's export market.

In view of this, after briefly examining the strategic origins, development effects, and future significance of China's export market diversification, this paper focuses on using international trade theory to analyze the three historical strategic opportunities brought about by the "One Belt and One Road" development for its further development. Based on this basis, we will explore the basic path and tactical options for further promoting the diversification and new development of China's export market. The diversification strategy of the export market is an important foreign trade development strategy implemented by the Chinese government for many years. Although the strategy has been proposed for more than 30 years, although it has achieved significant results, the overall effect is still unsatisfactory. It is still of great practical significance to advance its further development during the "Thirteenth Five- Year Plan" and beyond.

## **2. Diversification of China's Export Market**

### **2.1 Development effect**

In general, the degree of development of the diversification of the export market can be measured by the two indicators of the degree of dispersion and evenness of the export market. Regarding these two indicators, both the vertical comparison of their own development and the horizontal comparison with the development of major economies in the world have made great achievements in the development of diversified Chinese export markets. First of all, from the vertical comparative perspective of its own development.

The diversified development results of the export market in the country are obvious. First, from the perspective of export market dispersal indicators, as early as 2010, the number of Chinese export destination markets had been developed from dozens of countries and regions in the early days of reform and opening up to 231 countries and regions in the world; after that, Chinese products Exports have risen steadily and overseas markets have blossomed. Secondly, from the perspective of the uniformity of the export market (centralization degree), the proportion of the traditional Chinese exports has gradually declined, and the proportion of emerging markets has steadily increased. The data shows that the proportion of the top five export markets, such as the United States, Hong Kong, Japan, South Korea, and Germany, dropped from 63.2% in 2001 to 48.2% in 2010 and 45.9% in 2018, corresponding to ASEAN. The proportion of five emerging markets or regions such as India, Russia, Africa, and Latin America rose from 14.4% in 2001 to 22.9% in 2010 and 26.6% in 2018, respectively. The data shows that whether it is compared with the advanced economies or compared with the emerging economies, the proportion of China's current top five export markets is not the highest. For example, with the United States, Japan, Germany, and Britain.

Compared with the other four major developed economies, the top five export markets in Japan and the United States accounted for 56.4% and 50.4% respectively in 2018, both of which are significantly higher than the 45.9% in China; another example is India, Brazil, and Russia.

Compared with four major emerging markets such as South Korea, the top five export markets in Korea and Brazil accounted for 56.6% and 46.9% respectively in 2016. The former is significantly higher than China, and the latter is slightly higher than China.

## **2.2 Future development significance**

As mentioned earlier, “diversification of the export market” will not only help expand exports and stimulate economic growth, but also help resist external demand shocks and diversify risks. During the "13th Five-Year Plan" and even longer period, the importance of export market diversification to China's expansion of exports and boosting economic growth is self-evident, and there are already many studies that have been discussed and are limited in length. We will not go into details here. The following sections mainly analyze the practical significance of promoting the diversified development of China's export market from the perspective of resisting the external demand of exports and dispersing export risks.

On the one hand, the external demand of the world economy and China's exports will likely continue to slump. At present, although the world economy has gradually emerged from the shadow of the international financial crisis, its growth momentum is still insufficient. The traditional growth engines have weakened the pull of the world economy, and the new world economic growth point has not yet formed, and global trade has also entered. Medium- and low-speed growth "new normal." According to the IMF data, the growth rate of the world economy in 2016 was only 3.1%, the lowest level since 2010; the growth rate of world goods trade was only 1.7%, and it has been lower than the world economy growth rate for five consecutive years since 2012. Not only that, due to the gradual convergence of the output gap and the aging of the population, the potential growth rate of the developed economies continues to decline, and it is difficult to fundamentally reverse the development trend of weak output growth and weak domestic demand. The IMF forecasts show that in 2018, the actual GDP growth rate and domestic demand growth rate of developed economies were all 1.7%, of which the United States was 1.6% and the euro area was 1.5%. It can thus be seen that in the next five years, the economic development of the world economy, especially the advanced economies, will not be optimistic. The external demand for Chinese exports will likely remain sluggish. Therefore, as an important strategic measure to resist the impact of external demand and expand exports, the practical significance of the diversified development of the export market will become increasingly prominent.

On the other hand, the risks and uncertainties of China's exports to traditional markets may increase. Although its market diversification has made great achievements, the problem of China's excessive export concentration in advanced economies such as the United States, the European Union, and Japan remains prominent. In his inaugural address on January 20, 2017, he repeatedly emphasized "U.S. priorities" and proposed the two principles of "purchasing U.S. goods and hiring U.S. workers." On the third day after taking office, he signed an executive order announcing that the United States withdrew from the TPP. All these measures have increased the risk of implementing trade protectionism. Second, the possibility of the disintegration of the EU is also very high. In 2016, the two major black swan events that led to Britain's referendum on Brexit and the failure of Italy's amendment to the constitutional referendum have brought political turmoil to the EU.

## **3. “One Belt And One Road”: A New Engine For The Diversified Development Of China's Export Market**

Based on the traditional classical trade gravitation model and the contemporary frontier heterogeneous enterprise trade model and other trade theories, the decisive factors for enterprises' export market choices are the economic and population size of the export market, the geographical distance and cultural differences between the trade parties, and the enterprise's own Productivity levels, trade liberalization of exporting countries, and financial development levels. The cooperation priorities of the infrastructure, communications, and financial services proposed by the Belt and

Road Initiative will play a role in stimulating and creating new market demands, enhancing trade liberalization and facilitation, and promoting financial innovation and development. This will greatly promote China's trade development with countries along the Belt and Road and become a new engine for promoting the further development of China's export market.

Facilities Unicom will inspire and create new market demands. Infrastructure interconnection is a priority area for the “Belt and Road Initiative”. The policy proposes to “jointly promote the construction of an international backbone channel and gradually form an infrastructure network that connects Asian sub regions and Asia, Europe and Africa”. For example, the construction of high-speed railways, the world-class “five super projects” such as the Eurasian high-speed rail, the Central Asian high-speed rail, the Pan-Asian high-speed rail, the China-Pakistan high-speed rail, the Sino-Russian high-speed rail, etc., have successively started or started negotiations. The construction of China Unicom's facilities will stimulate and create new market demand for China from the following two aspects.

Facilities Unicom investment will create new and huge market demand for China's exports. Theoretically, there is a clear complementary relationship between foreign investment and international trade. Foreign investment can create and expand foreign trade. Many empirical studies also show that foreign investment is not only conducive to the export volume of Chinese companies and the wide geographical scope of exports, but also conducive to extending the duration of their exports. Due to the large amount of input equipment and materials and long construction period for international infrastructure construction, its trade creation effect is particularly great. For example, the above-mentioned “five super projects” can create huge market demand for Chinese steel and high-speed rail technology exports based on the steel they need to invest. The construction of high-speed rail is only part of the construction of infrastructure interconnection, and infrastructure projects such as railways, highways, airports, ports, and docks all contain enormous potential and business opportunities. Not only that, according to the Asian Development Bank's study, the proportion of transport infrastructure construction in infrastructure construction is only 35%, and the proportion of infrastructure construction such as energy infrastructure construction, communications infrastructure, water supply and sanitation infrastructure accounts for the proportion. They were 49%, 13%, and 3% respectively. Each of these infrastructure construction projects can create a huge new market for China's exports.

Capital Finance will promote financial innovation. Recent research on heterogeneous corporate trade theories shows that the level of national financial development determines the “order of foraging” of their export destinations: the higher the level of financial development, the greater the number of destinations the company can export to. Therefore, by improving domestic financial conditions and raising the level of financial development, a country can expand the number of export destinations of its enterprises and promote its enterprises to enter new export markets. Capital Finance is an important support for the construction of the “Belt and Road Initiative”.

#### **4. Conclusion**

As mentioned above, during the “13th Five-Year Plan” and even longer period, it is of great practical significance to further promote the diversified development of China's export market. The construction of “One Belt and One Road” is just the new engine to promote its further development. Therefore, the expansion of exports along the “One Belt and One Road” should become the key direction for China in promoting the diversification and new development of export markets in the future. Although the construction of China Unicom's facilities will stimulate and create new market demand for China's exports, due to its constraints on funding, lack of mutual trust, and political risks, it is not easy to activate the vast new world along the “One Belt and One Road” initiative. In order to solve these constraints, it is necessary to strengthen the three concepts of gradualness, responsibility, and risk in the construction of facilities and links. Promoting system, management and service innovation to improve trade facilitation of the “Belt and Road Initiative”.

As the current global trade enters the new normal of low- and medium-speed growth, and under the background that the traditional trade barriers have been continuously reduced and trade liberalization has reached a relatively high level, improving trade facilitation has become the main route to enhance trade liberalization. Drawing on international and domestic experience, China can boost trade facilitation through exports along the “One Belt and One Road” by promoting system, management, and service innovation. Intensify innovation, opening up, and supervision to build the “Belt and Road” financial artery.

Finance is the core of the modern economy. Financial services have increasingly become the main thrust of expanding exports. Considering that the economic strength and financing capacity of the countries along the route are relatively weak, and that China’s financial development is lagging behind its economic and trade development, expanding support for exports along the “One Belt and One Road” especially requires financial services. To this end, it is necessary to increase financial innovation, opening up, and supervision, and build a major artery for the construction of the “One Belt and One Road.”

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