



# Analysis on the Interaction Between Financial Development and International Trade

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**Abstract.** Under the influence of economic globalization, the relationship between finance and trade is getting closer and closer, and the interaction between them is becoming more frequent, indicating the important correlation between the two. Therefore, this paper introduces the relationship between financial development and international trade and analyzes the interaction between financial development and international trade in the current international situation.

**Keywords:** Finance · International trade · Financial development

## 1 Introduction

With the continuous development of global economic integration, the status of international finance has gradually been promoted, and the impact of financial development on international trade has become more and more significant. In the academic field, various studies on the relationship between financial development and international trade can be divided in two main streams. The first stream involves the impact of financial development on international trade, while the second pays more attention to the reverse causality between these two variables [1]. International trade is the result of economic development, and finance is the core of the modern economy. Financial operation not only directly affects the process of economic construction but also relates to social development to a great extent. With the speeding up of the process of economic globalization, the pace of globalization of international investment, international finance, and international trade has also been accelerating, and every link of the global economy is closely connected. Among them, international finance is the core and serves international trade and investment at the same time, but it is also inseparable from them.

As the core of modern society and the world economy, the prosperity and development level of the financial industry will directly affect the direction, process, content, and structure of international trade. The role of financial development in promoting international trade is obviously stronger than that of economic fluctuations. It can be said that the function of financial development can effectively promote the technological innovation of international trade. Due to the continuous optimization of import and export commodities and the continuous expansion of international service trade, international trade will also have a positive response to finance.

## **2 The Current Situation of Financial Industry and International Trade**

### **2.1 Financial Industry**

With the rapid development of economic globalization, the financial industry has also developed manual, separate, and small in the industrial age to digital, mixed, and super-large in the information age, presenting an unprecedented fierce competition situation. The continuous emergence of new technologies has led to the improvement of the efficiency of financial institutions and the emergence of financial innovations. The escape of financial institutions from control and the change of economic systems in various countries have promoted the gradual formation of financial globalization. The deepening of finance in developing countries and the relaxation of financial control in developed countries have correspondingly brought about a large-scale flow of some funds, resulting in changes in the institutional basis on which cross-border flows of funds depend. This wave of financial liberalization has laid a global foundation for real financial activities. It has greatly promoted the development of financial globalization and increased the types and scale of transnational financial transactions.

Enterprises in both developed and developing countries have adopted foreign securities markets to raise funds. Furthermore, many countries have also issued bonds to the international financial markets, making holders gradually realize globalization. Through the efforts of financial liberalization of various countries, the financial markets of various countries in the world have increasingly become an organic part of the global financial market. The rise of the digital financial industry marked by e-money, online banking, online securities trading, online insurance sales, and online foreign exchange trading shows us the traditional financial market in a way that cannot be ignored. In addition, the digital finance industry represented by information technology has had a strong impact on financial transactions and financial institutions. The virtualization of the global financial market, the networking of financial institutions, the digitalization of financial businesses, and the paperless have become the general trend of financial industry development.

### **2.2 Smart Finance**

With the deep integration of emerging technologies such as artificial intelligence, big data, cloud computing, Internet of Things, and blockchain with financial business, financial innovation is accelerating, which also promotes the transformation and upgrading of financial institutions to intelligent finance to meet the development needs of new ideas, new channels, new products, and new formats. Smart finance is a higher stage of the evolution of traditional financial services in the Internet era, whose realization is based on large-scale real data analysis. Therefore, the decision of smart finance can be closer to the needs of users. Smart finance represents the future development direction of the financial industry. Compared with traditional finance, smart finance has higher efficiency and lower service cost. Smart finance relies on Internet technology and uses financial technology means such as big data, artificial intelligence, and cloud computing to comprehensively improve the financial industry in terms of business process, business

development, and customer service. The financial industry realizes the intellectualization of financial products, risk control, customer acquisition, and services. The openness and cooperation among financial subjects make smart finance show the characteristics of high efficiency and low risk. In recent years, Internet finance has been developing rapidly. From the initial barbaric growth to the compliance development, and gradually incorporated into the national financial supervision system, it not only reflects the rapid development of this industry but also provides more kinetic energy for the reform and development of the national financial system.

With the further development of the financial technology market, the sources and types of market players are more diverse. The docking cooperation between various market players continued to deepen and expand, speeding up the financial “new infrastructure” construction and deepening financial openness. With the rapid development of the mobile Internet and the quick popularization of smart devices, the behavior patterns of financial consumers have changed dramatically. Wisdom will produce a great industrial effect, social effect, and economic effect, bring great changes to social governance and people’s lives and preliminarily reflect the pulling effect of intelligent technology on emerging industries and the social economy.

## 2.3 International Trade

### 2.3.1 Global Trade

The report of the UNCTAD predicts that global trade will grow strongly in 2021 and reach an all-time high in 2021. Specifically, the report predicts that global trade will reach about \$28 trillion in 2021 for the whole year, an increase of 23% over 2020 and even 11% compared with 2019 before the epidemic. Unlike previous years, when global trade lost its stimulating effect on the world economy, the growth rate of global trade in 2021 will be higher than that of the world economy, and the trade-in goods will become the major driving force for the recovery of the world economy. The report of the World Trade Organization (WTO) predicts that the global trade volume of goods will increase by 10.8% in 2021 and will continue to increase by 4.7% in 2022.

Import and export trade is the complementarity of scarce resources and an important form of product sales. It realizes the economic value in the process of product and material transformation. Import and export trade increases the value of products and profits, which are distributed in the form of tax revenue. The business developed area is more significant in the free trade area. Import and export trade not only prospers the world economy but also makes the local finance develop effectively [2].

Although economic globalization and regional economic integration have brought opportunities to the development of the international trade market, they also have an impact on the international trade market of some countries. The Granger-causality results suggest that trade openness and financial development do have a causal impact on economic growth; On the contrary, economic growth does have a causal impact on trade and financial development [3]. The world economy will maintain growth in 2022, and the implementation of regional trade agreements such as the African Free Trade Area and the Regional Comprehensive Economic Partnership (RCEP) will affect the global trade pattern. RCEP, which came into effect on January 1st, 2022, will create the world’s

largest economic and trade zone and is regarded by UNCTAD as a new focus of global trade. It will also help improve the ability to resist COVID-19.

### 2.3.2 Global Trading System

The World Trade Report 2021 pointed out that the health and economic crisis caused by the COVID-19 pandemic was a large-scale stress test of the world trade system, which had an unprecedented impact on the global supply chain and trade relations among countries. Because international trade is not the root cause of the financial crisis, but a solution to mitigate its impact on the world economy [4]. In 2020, the value of global trade in goods and services in nominal dollars dropped by 9.6%, while global GDP fell by 3.3%, the worst recession since World War II. However, the trading system has proved more resilient than many expected at the beginning of the crisis. Although the epidemic seriously disrupted the international trade flow at the beginning, the supply chain quickly adapted, goods continued to flow across borders, and many economies gradually began to recover. During the pandemic, the global trading system helped countries respond by facilitating access to critical medical supplies, food, and consumer goods, and supporting economic recovery.

## 3 Interaction Between Finance and International Trade

### 3.1 The Impact of Finance on International Trade

In the activities of international trade, financial services exist in every link. In recent years, international trade is developing rapidly, and its scale and amount have expanded rapidly. The types and mode of trade are constantly changing and developing in the direction of diversification. International trade activities have become more complex. Many uncertainties such as the competitive environment and the reputation of buyers and sellers have brought many risks and challenges to international trade activities. Even if the export target is developed countries, the loss of export proceeds cannot be avoided. However, with the development of finance, financial services can better meet the various needs of international trade activities, and also provide a good institutional environment for trade activities, such as export credit insurance and international trade integration tools, so as to avoid some risks in trade activities and facilitate the smooth progress of trade activities.

At present, the implementation of free trade policy is the trend of international trade development, but there are many constraints that affect the liberalization of international trade, such as the level of financial development. Therefore, only improving the level of financial development can ensure the liberalization of international trade. Matthew's effect suggests that the more perfect a region's financial development is, the more frequent and smoother its foreign trade will be, independent of other factors.

In order to better promote the development of finance and international trade, we must have a deep understanding of the interaction between them and the corresponding influencing factors and make full use of the favorable conditions of various countries through appropriate research methods. In this process, we should fully adjust economic

policies and promote capital accumulation and reduce financing costs: the capital accumulation and reduce the financing cost through the five functions of financial development: allocating resources, mobilizing savings, facilitating risks, dispersing, supervising, and controlling, and facilitating the exchange of goods and services, so as to fuel the development of high-tech industries.

Finance has many functions to promote the positive development of international trade. Therefore, countries can improve their country's resource configuration, accordingly improve the efficiency of the use of scarce capital, promote the development of technology and innovation, improve and perfect the trade structure, provide convenience and security, and give full play to the positive impact of financial development on international trade.

### **3.2 The Reaction of International Trade to Financial Development**

At present, many existing theoretical studies have shown that a country's financial development is closely related to international trade. When the financial market of a country lacks integrity, international trade may be disrupted. In particular, the higher the status of a country in exchange activities, the stronger the impact will be. As for FDI flows, our results show that as a country is open to trade, FDI will flow even in the absence of a strong financial system [5]. Similarly, the international trade situation will also affect the country's economic situation. There are great differences in industrial level and international trade structure among countries. Intensive, industrialized, technology-based, and knowledge-based industries and products have more functions and space to create value and can obtain a large amount of foreign capital, thus promoting the development of local finance.

The capital itself has the nature of pursuing profits. Therefore, the promotion and optimization of the scale, level, and structure of international trade will objectively stimulate the wisdom of capital, so as to obtain a large amount of foreign investment and promote financial development. While, accelerating the development of economic globalization, international trade will also promote the development of the financial industry and financial market. The development of economic globalization puts forward higher requirements for the overall function of the financial system and the risk control and management of the financial market, which indirectly improves the control and management level of the financial industry. International trade drives international investment and promotes the rapid development of international finance through international trade, which can provide continuous circulation of global flows and inexhaustible financial support for financial development. Economic globalization has brought about the global flow of international capital. In this series of driving effects, international trade has brought about international investment, which promotes not only international trade but also the upgrade and development of international finance. With the improvement of the level of trade liberalization, international trade can play a certain role in promoting financial development. Trade liberalization increases financial risks, the difficulty of obtaining information, and the cost of financial control. As a result, the trade system will be continuously optimized, innovated and reformed to adapt to the changes brought about by trade liberalization.

## 4 Conclusion

As two critical parts of a country's economy, finance and international trade are closely related. Therefore, in the process of long-term economic development, we should pay attention to the role of financial development in international trade and also the effect of international trade in financial development. A complete and powerful financial development system is the foundation of a country's foreign trade. Additionally, the speed of financial development directly affects a country's foreign trade. Only the rapid development of finance can maintain the coordination between finance and international trade and ensure the stability of the development level of the national economy.

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