



# The Short and Long-term Consequences of Belt and Road Initiative for China

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**Abstract.** Since the publication of the strategy of One Belt and One Road, China has developed rapidly in terms of trade, which has not only promoted the cooperation among countries, but also improved the economic level of underdeveloped domestic areas. The problem of overcapacity is also slowly improving. What is more important is to internationalize the RMB and move towards the goal of the RMB becoming a universal currency.

**Keywords:** Trade, Overcapacity, Foreign exchange reserve, Internationalize RMB.

## 1 Introduction

More than 60 nations around the world have endorsed China's Belt and Road Initiative that will not only boost economic growth in China and other nations along the path, but also providing China with a number of possibilities. In the context of economic globalization, the Initiative will have a profound impact on China and even the world. However, trading with nations along the routes will present China with several obstacles. As a result, China should be prepared to cope with a variety of hazards. This study will examine the immediate and long-term impacts of this strategy on China, as well as its merits and downsides. The first part of this paper introduces the short-term impact of the Belt and Road policy on China. It explains how this policy affects trade in the short run from three different dimensions. And mention obstacles and problems. The second part introduces the long-term impact of this policy on China, which is analyzed from two aspects: domestic and international. Finally, the paper focuses on how to internationalize RMB through the Belt and Road Initiative.

## 2 The short run impact of Belt and Road on our trade

### 2.1 The Short-term Consequences

The short-term impact can be mathematically modelled by fitting the pre-Belt and Road policy data into a mathematical relationship and then extrapolating the indicator data that would have been available if the Belt and Road policy had not been implemented

and comparing this data with the real data after the implementation of the policy, so as to complete the construction of a mathematical model to explain the short-term impact brought by the Belt and Road policy.

Increasing trade cooperation as the consequence is because the Belt and Road Initiative has enabled nations along the path to fully utilize their comparative advantages, making trade and investment easier, boosting the amount of commerce between countries and encouraging economic development. The second impact is about promoting transport facilitation. Following the Belt and Road initiative, the country has kept on enhancing its transport system. This will result in much more efficient transport, faster logistics and even lower logistics costs, allowing countries on both sides to reap more benefits from it. Belt and Road policy also promote domestic coordinated regional development.

China has focused its economic development on the eastern coastline areas since reform and opening up, resulting in sluggish economic development in the middle and western regions. The middle and western areas' economic development has been modest, and the eastern coastline region has become the "locomotive" of China's economic development. At the moment, China's eastern coastline region's economy is progressively getting saturated, while the central and western areas' economies have been slowing due to sluggish growth. Because of the shaky basis of progress, geographical location, inconvenient transportation and other factors, many resources have not been effectively. The economy of the Northeast region is suffering from overcapacity. The economy of the north-eastern region is suffering from overcapacity and industrial imbalance. The economy of the Northeast is suffering from overcapacity and industrial imbalance. [1]

The economy of the Northeast has been "urgently" revitalised. The "Belt and Road" plan can be implemented. The "Belt and Road" plan may effectively develop the resources of the central and western regions, boost economic growth in those regions, and encourage the creation of new industries. At the same time, it might create prospects for the Northeast region's economic growth, altering. At the same time, it may create prospects for the Northeast region's economic development, transforming production capacity. The goal of the "One Belt, One Road" strategy is to aggressively promote all-around multi-level collaboration among nations along the route, emphasizing their respective advantages, cooperation, and win-win situations.

Ili Prefecture, for example, was an important route along the northern route of the Silk Road in ancient times, and it is now an important area for the development of foreign trade and tourism in Xinjiang, which has developed into a famous border tourism region in the west of China. The natural resources of Yili are rich, the scenery is beautiful and Xinjiang is the centre of the most beautiful grasslands, with large and small grasslands spread across Yili and the valley counties. Ili is one of the most popular tourist sites in Xinjiang, having three picturesque places in the whole Ili Prefecture, one of which is a national tourist attraction. As a result of the strategy, the government has begun to focus on the development of border tourism in Ili. This is because the Belt and Road Initiative has enabled nations along the path to fully utilize their comparative advantages, making trade and investment easier, building roads, infrastructure and tourism projects. In the past decades, the tourism industry in Ili oblast has encountered

bottlenecks and is not developing optimistically. In 2014, tourism receipts rose significantly.

## **2.2 Obstacles and Negative Impacts in Short Run**

Firstly, under the strategic framework of "One Belt, One Road", China's infrastructure and large-scale industrial exports to countries along the belt and road will continue to increase, which will inevitably intensify the competition between Chinese enterprises and those of developed countries, and even cause trade friction. In the long period of developing foreign trade, China has faced the most trade friction around the world. What's more, most of the products exported by China are typical labour-intensive products, which are vulnerable to anti-dumping investigations by importing countries because of their low prices. Thus, after the implementation of the "the Belt and Road" strategy, Chinese enterprises must take precautionary measures to deal with foreign trade friction.

Secondly, increasing in financial conflicts. With the implementation of the initiative, Asia's infrastructure has developed compared with the past. China proposed to establish the Asian infrastructure investment bank (AIIB), but it was strongly opposed by the United States, Japan and other countries. As a result, China's trade frictions would expand beyond physical commerce to the monetary and financial spheres, involving economic and financial games between the world powers.[2]

## **3 The LONG- run impact of Belt and Road on our trade**

### **3.1 Domestic Impact**

#### **The Problem of Overcapacity.**

Current situation of overcapacity in China. Overcapacity is becoming increasingly frequent in China's industrial sector, and if it is not addressed efficiently, it will eventually impede China's rapid economic growth. The problem of overcapacity is reflected in both traditional industries and new high-tech industries, with the capacity utilization rate of the crude steel industry being only 72% in 2013. [3] And the capacity utilisation rate of polysilicon in China is only 50%, while it is as high as 90% in the US. Problems caused by overcapacity. Profits in the firm have plummeted as a result of excess capacity. As a result, serious overcapacity not only disrupts China's economic structure, but also hinders China's economic development to a great extent. In a sense, the "the Belt and Road" will bring unprecedented opportunities for foreign investment with the goal of absorbing excess capacity from China. The implementation of this policy will not only enable China to resolve its overcapacity crisis, but also bring a series of immediate benefits such as increased employment and improved backward infrastructure development. [4]

### **Foreign Exchange Reserves.**

There are problems in China's foreign exchange reserves. (1) Excessive foreign exchange reserves add to the push for currency appreciation. (2) Immoderate foreign exchange reserves lift the cost. The sum of foreign exchange asset revenues and foreign exchange liabilities expenses is around \$60 billion negative. There are many new risks associated with this export The foreign exchange assets are much larger than the foreign exchange liabilities. This structural shift will significantly boost total foreign exchange revenues. This level of foreign exchange earnings is the wealth of our country This goal can be achieved, although there are many risks, but overall, the level of return on foreign exchange Although there are many risks, the total rate of return on foreign exchange assets will skyrocket.

### **Internationalization of RMB.**

#### *Settlement Currency.*

The In 2015, since the RMB was officially included in the SDR basket by the International Monetary Fund, the RMB has also shown a trend of globalization. Nevertheless, regional economic cooperation remains the most effective approach to boost cross-border RMB movement [5]. For a long time, the RMB has been considered as the most important currency in the key areas of the "the Belt and Road". Although the specific content of the policy has not been clearly defined, many Chinese experts and scholars held that the RMB should be used as the settlement currency for product trade in the region. Simultaneously, we will enhance Chinese capital participation in infrastructure projects and encourage RMB-based cross-border payments.

BRI countries do not fully acknowledge the RMB's cross-border settlement capacity. At present, the internationalization of RMB is still at the initial stage, far less than that of USD. As a result, different countries recognize the RMB's international settlement function differently in the "Belt and Road" commerce. Driven by the "the Belt and Road" initiative, the trade volume of nearly 10 countries accounts for more than 10% of their total trade volume, while the proportion of these countries is less than 5%. If the cross-border settlement function of RMB cannot be fully developed, the economic goal of the initiative will not be achieved. On the one hand, the "the Belt and Road" initiative will provide strong support for the global development of RMB. On the other hand, the initiative aims to strengthen regional economic cooperation to meet the expansion needs of the euro zone and other common currencies. the US dollar is the favored currency. Despite learning the painful lessons of the financial crisis, some governments are still experimenting with alternative currencies in order to disperse or even reduce risks through currency diversification [6]. RMB can be used as the settlement currency of the project.

Although the US dollar is the preferred currency of the "the Belt and Road" initiative, after experiencing the huge impact brought by the financial crisis, a considerable number of countries are still trying to find other available settlement currencies with the purpose of reducing the potential risks arising from trade settlement [7].

*Investment Currency.*

The proportion of RMB invested in FDI and overseas commercial operations is a crucial driver of RMB internationalization success.[8]. At this stage, there is an obvious mismatch between the use of RMB and China's share in global commerce and investment. Overseas investment and business cooperation are mostly priced in US dollars. Many currencies of countries and regions along the the Belt and Road cannot be converted into RMB for settlement in a short time. The Bank of China polled 3,200 local and international industrial and commercial firms for its White Paper on RMB Internationalization for 2020. In 2020, for example, 51% of domestic industrial and commercial enterprises used RMB in foreign direct investment, an increase of 13% over the same period of last year. In the year of 2019, the proportion of industrial and commercial enterprises using RMB for foreign direct investment was 27%, down 11% from 2018. At the same time, enterprises that do not use RMB account for 22%, down 2% year-on-year. RMB globalization still has a long way to go. Carrying out RMB ODI, especially RMB equity investment, is of great significance to fully tap the potential of RMB demand [9]. In fact, the most difficult part of RMB direct investment is to overcome the inertia of using US dollars.

Nevertheless, with the continuous development of projects along the Belt and Road (scheme expansion, policy reform, and popularization of economic establishment), and strengthening of mutual confidence among nations) in the long run, the usage rate of RMB in ODI would progressively grow. China's total investment in countries along the "the Belt and Road" has also continued to grow. According to the Ministry of Commerce, in 2018, China's direct investment in countries along the line totaled US \$15.64 billion, accounting for 13% of the total foreign investment. Since 2003, the total investment has increased by 77 times, an increase of 16.5% over the 13.4 billion US dollars in 2013.

The emergence of the "the Belt and Road" initiative makes the number of enterprises participating in direct investment increase year by year, including both financial investment and non-financial investment. Most investors are state-owned enterprises [10]. Under the background of the increasingly perfect financial market system, SMEs in BRI projects will be able to make ODI utilizing RMB in the future. RMB exports will improve RMB use and liquidity in the international market.

*Reserve Currency.*

The currency swap agreements signed between China and the countries and regions along the line have provided each other with strong liquidity support on the one hand, and laid a solid foundation for the RMB as the settlement currency of bilateral trade on the other hand. [11] In the meantime, we will accelerate the development of direct investment and financial asset investment in RMB, and encourage countries and regions along the "the Belt and Road" to establish RMB foreign exchange reserves. However, some experts predict that the position of RMB in the international market will be improved in the next few years, but becoming a worldwide reserve currency will take time.

## **Opportunities from Innovation.**

### *Opportunities from Industrial Innovation.*

Industry innovation includes the benefits of industrial transformation, upgrading, and relocation. As an important component of the "the Belt and Road" initiative, many high-quality surplus Industries in China will be transferred to other countries and regions. The reason is that the changes in market supply and demand make the surplus industries more likely to be fully valued in other countries; In addition, with the rise of factor costs, the price competitiveness of industries and products has been weakened. Only in countries and regions with lower factor costs can there be opportunities for development. Finally, if the development of an entire industry is affected by restrictions on the export of products to some developed countries, perhaps these barriers can be bypassed in other countries.

### *Opportunities arising from financial innovation.*

Implementing the "Belt and Road" strategy necessitates, first and foremost, a sufficient flow of finance, which can only be accomplished through financial innovation. Although the Silk Road Fund have been formed, they can only address a portion of the financial issue. Countries and regions along the Belt and Road will participate in different financial innovations, like as the issuance of securities, the formation of various types of funds and new financial structures, and so on. There are many opportunities in between.

## **3.2 International Impact**

The goal of the "One Belt, One Road" strategy is to aggressively promote all-around multi-level collaboration among nations along the route, emphasizing their respective advantages, cooperation, and win-win situations, and common harmonious economic development. [12] The Belt and Road not only provides a strong guarantee for China's energy transportation, but also injects new vitality into the world economic development. It can be seen that the impact of the initiative is not limited to China, but global. [12]

## **4 Conclusion**

It is undeniable that the initiative has indeed brought unprecedented changes to China's economic development. Not only has the short-term commerce, transportation, and coordinated growth made significant progress and promotion, but the long-term aim of RMB internationalization is also progressing rapidly. Furthermore, by making maximum use of resources and decreasing energy waste, the problem of overproduction capacity has been alleviated. Although there are some non-negligible negative effects such as increased trade frictions due to increased competition, and increased financial conflicts with other countries.

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