



Research on the influencing factors of bilateral financial cooperation from the perspective of structural power-- Empirical analysis of threshold model based on data of China and the countries along the Belt and Road

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Abstract. The construction of the ‘the Belt and Road’ is an important part of China's external economic cycle. Summarizing the historical experience of financial cooperation between China and countries along the Belt and Road, and proposing differentiated cooperation strategies has important value for deepening the bilateral financial cooperation in the future. We constructs a financial cooperation index between China and countries along the Belt and Road with data from 2000 to 2018, divides these countries into high, medium and low cooperation countries, then, based on the structural rights perspective to select influencing factors from security, production, and financial perspective. Finally, conduct threshold regression analysis with the financial cooperation index. As the result, there is a significant positive correlation between the economic development level and the financial cooperation index. The correlation coefficient increases after the threshold variable crosses threshold. The results show that China and these countries with high level of economic development are more likely to deepen cooperation, but the financial cooperation of is not enough with poor countries.

Keywords: the Belt and Road, Financial Cooperation Index, Regional finance; Threshold model

1 Introduction

China put forward the Belt and Road development Initiative in 2013, aiming to deepen cooperation with countries along the routes. The national security, economic development and geographical location of these countries are quite different, which makes the results of financial cooperation between China and them show great differences. So it is necessary to understand the relevant influencing factors and the degree of influence.

2 Literature Review

2.1 The relationship between economic and financial cooperation

The growth and causal relationship between economic and financial cooperation is the key research topic for many economists. Some scholars proposed the structural power theory, which analyzes the economic market from four aspects: safety, production, finance, and knowledge [1]. Some use financial related indicators to analyze the financial development status, proving that financial development can promote economic growth [2]. Caporaled et al. found developed financial system can effectively promote domestic economic development [3].

2.2 Construction of financial cooperation index

Building an objective financial cooperation indicators is the premise for the next research. Liu and Ding built the China-ASEAN financial cooperation index from money, infrastructure, and other factor to analyze the development process [4]. On this basis, Shen and Meng used the entropy method to measure the degree of bilateral financial cooperation, making the measurement results more comprehensive [5].

2.3 The research of domestic scholars

Academic research on the influencing factors of financial cooperation between China and countries along the Belt and Road focuses on investment, monetary and other factors. Zhou et al. analyzed the relationship between the financial development level of countries along the Belt and Road and China's direct investment by constructing a financial development index [6]. Li and Cai used the OCA index method to study the status of monetary cooperation between China and ASEAN [7].

With the promotion of cooperation projects and in-depth research, scholars gradually put their mind to the direction of safety, production, knowledge, etc. Guo et al. analyzed the impact of financial organizations, regulation, and monetary system on financial cooperation between China and countries along the Belt and Road [8]. Tong and Zhang analyzed the economic risks of Central Asian countries from their historical, social, and other aspects [9]. In the current turbulent international situation, financial risk has gradually become a key research object. To explore the impact of national financial risks on financial cooperation, Li and Tang constructed a comprehensive evaluation index of financial risks in countries along the Belt and Road [10]. Some scholars found that high military expenditure to GDP makes it easier for Asian countries to engage in financial cooperation with China [11]. Overall, many scholars have conducted extensive research on the influencing factors of financial cooperation between China and countries along the Belt and Road. However, few scholars have analyzed the four influencing factors in series and constructed a more comprehensive econometric model.

On the basis of existing research, this paper uses the entropy method to build a financial cooperation index system, and divides the countries along the Belt and Road

into different degree. Finally, use the perspective of structural power to find useful suggestions according to the specific conditions of different.

3 Financial Cooperation Index System

3.1 Calculate the financial cooperation index

3.1.1 Construction of index system.

By drawing on the construction ideas of China ASEAN financial cooperation indicators proposed by Liu & Ding (2020) and Shen & Meng (2020), we studies currency cooperation, financial regulatory cooperation, financial institution cooperation, financial market cooperation, and multilateral financial cooperation between China and the countries along the Belt and Road from 2000 to 2018 as primary cooperation indicators. Considering the availability of data, 33 countries were selected for research, and various indicators were calculated using the entropy method. The financial cooperation indicator system is shown in Table 1.

Table 1. Financial Cooperation Indicator System

Primary indicators	Secondary indicators	Indicator assignment	data sources	weight
Monetary cooperation	RMB Clearing Bank	Yes, it is 1, otherwise 0	the People's Bank of China	0.2300
	currency swap agreement	Yes, it is 1, otherwise 0	The People's Bank of China	0.1520
	Currency swap agreement	Calculated based on the duration of the agreement in RMB	the People's Bank of China	0.1917
regulatory cooperation	memorandum of understanding	Yes, it is 1, otherwise 0	Bank of China	0.0770
institutions cooperation	Number of overseas institutions of Chinese banks	The numbers of institutions	Commercial Bank Annual Report	0.0881
	Number of institutions of national banks along 'the Belt and Road' in China	The numbers of banks	State Administration of Financial Supervision and Administration of China	0.0850
Market cooperation	Proportion of trade volume between China and others in their GDP	Assigned according to the proportion	Wind database	0.0374
Multilateral financial cooperation	Whether to join the Asian Investment Bank	Yes, it is 1, otherwise 0	AIIB website	0.1386

3.1.2 Determination of Index Weights.

With reference to the entropy method of panel data by Yang and Sun(2015), the calculation formula of each primary index, secondary index weight and financial cooperation index (cor) is determined as follows:

$$w_j = D_j / \sum_{j=1}^m D_j, (0 \leq w_j \leq 1, \sum_{j=1}^m w_j = 1) \tag{1}$$

D_j is the coefficient of difference for each j th indicator, w_j is the weight coefficient for each j th indicator. According to the linear weighting method to calculate the comprehensive score, cor_i is the financial cooperation index of country i in year t :

$$cor_{it} = \sum_{j=1}^m w_j * x_{ijt} \tag{2}$$

The weights of each indicator are shown in Table 1. According to formula (1), the larger the coefficient of difference, the greater the weight it occupies. During the inspection period, the overall financial cooperation index obtained in this article showed an upward trend.

3.2 Current situation of financial cooperation between China and B&R countries

According to the above financial cooperation indicator construction method, we calculate the financial cooperation index of 33 countries, and rank the average value of the financial cooperation index of countries from 2000 to 2018 in order, as shown in Table 2.

According to the ranking results, high cooperation countries are mainly concentrated in Southeast Asia, with Singapore, Malaysia, and Thailand ranking among the top three in the financial cooperation index; Low to medium cooperation countries are mainly concentrated in West Asia and Eastern Europe, with only Russia, Qatar, and the United Arab Emirates ranking among the top in terms of cooperation.

Table 2. Ranking of Financial Cooperation Index between China & the Countries along the Belt and Road

Cooperation degree	Serial Number	country	area	Serial Number	country	area
High cooperation countries	1	Singapore	Southeast Asia	7	Indonesia	Southeast Asia
	2	Malaysia	Southeast Asia	8	Cambodia	Southeast Asia
	3	Thailand	Southeast Asia	9	Mongolia	East Asia
	4	Russia	Eastern Europe	10	Pakistan	South Asia

	5	Qatar	West Asia North Africa	11	Kazakhstan	Central Asia
	6	The United Arab Emirates	West Asia North Africa			
Medium cooperation countries	12	Turkey	West Asia North Africa	18	Sri Lanka	South Asia
	13	Ukraine	Eastern Europe	19	Kuwait	West Asia North Africa
	14	Vietnam	Southeast Asia	20	Myanmar	Southeast Asia
	15	Philippines	Southeast Asia	21	Jordan	West Asia North Africa
	16	India	South Asia	22	Israel	West Asia North Africa
	17	Poland	Eastern Europe			
Low cooperation countries	23	Iran	West Asia North Africa	29	Lithuania	Eastern Europe
	24	Nepal	South Asia	30	Yemen	West Asia North Africa
	25	Oman	West Asia	31	Lebanon	West Asia North Africa
	26	Bahrain	West Asia North Africa	32	Bulgaria	Eastern Europe
	27	Bangladesh	South Asia	33	Croatia	Eastern Europe
	28	The Czech	Eastern Europe			

The average cooperation indicators are shown in Table 3. High cooperation countries have high macroeconomic indicators and, good production conditions, high national education levels, and low population mortality rates, and have an excellent foundation for cooperation. Countries with medium cooperation have poor macroeconomic conditions, low local currency values, low gross domestic product, high national risk index, and low education levels. The macroeconomic indicators and national risk index of low

cooperation countries are at a moderate level, with high medical investment and low carbon emissions and infrastructure investment, indicating that they have fewer high emission industries.

Table 3. Sample Mean of High, Medium, and Low Cooperation Countries

index	High cooperation	Medium cooperation	Low cooperation
Financial Cooperation Index	High	Medium	Low
gross national product	High	Low	Medium
National Consumption Index	Low	Medium	High
Import and export volume to China	High	Medium	Low
National Risk Index	Low	High	Medium
Per Capita GDP	Medium	Low	High
gni	High	Medium	Low
Infrastructure investment	Medium	High	Low
Exchange rate against US dollar	Low	High	Medium
Carbon dioxide emissions	High	Medium	Low
Medical and health investment	Low	Medium	High
University enrollment rate	High	Low	Medium
Gross mortality rate	Low	High	Medium

4 Model Setting and Data Explanation

4.1 Construction of Threshold Model and Selection of Data Variables

We refers to Hansen's (1999) threshold regression approach and selects control variables from the perspectives of safety, production, finance, and knowledge to construct a threshold regression model.

Based on the single threshold model, the dual threshold model can be derived as (4):

$$cor_{it} = \alpha_0 + \sum_{j=1}^9 \alpha_j \beta_j + \alpha_{10} \ln GDP_{it} \times I(\ln CPI_{it} \leq \gamma_1) + \alpha_{11} \ln GDP_{it} \times I(\gamma_1 < \ln CPI_{it}) + \epsilon_{it} \tag{3}$$

$$cor_{it} = \alpha_0 + \sum_{j=1}^9 \alpha_j \beta_j + \alpha_{10} \ln GDP_{it} \times I(\ln CPI_{it} \leq \gamma_1) + \alpha_{11} \ln GDP_{it} \times I(\gamma_1 < \ln CPI_{it} \leq \gamma_2) + \alpha_{12} \ln GDP_{it} \times I(\gamma_2 < \ln CPI_{it}) + \epsilon_{it} \tag{4}$$

The control variables are:

$$\sum_{j=1}^9 \alpha_j \beta_j = \alpha_1 \ln \text{exim}_{it} + \alpha_2 \text{risk}_{it} + \alpha_3 \ln \text{pgdp}_{it} + \alpha_4 \ln \text{GNI}_{it} + \alpha_5 \ln \text{exrate}_{it} + \alpha_6 \ln \text{co2}_{it} + \alpha_7 \ln \text{health}_{it} + \alpha_8 \text{schoolh}_{it} + \alpha_9 \ln \text{death}_{it} \tag{5}$$

In the appeal formula, *i* represents the country along the route, *t* represents the year; *cor* stands for the financial cooperation index between China and that country, *exim* stands for the total import and export trade of the country, *risk* stands for the comprehensive risk index of the country, *pgdp* stands for the per capita gross product of the country, *GNI* stands for the gross national income of the country, *exrate* stands for the exchange rate of the country, against the US dollar, *co2* stands for the carbon dioxide emissions of the country, *inv* stands for the investment in fixed assets, *schoolh* stands for the university enrollment rate, *health* stands for the proportion of medical and health investment in GDP, *death* stands for the crude death rate per 1,000 people, and *CPI* stands for the consumer price index of country. *I* is the indicator function, when the condition in parentheses is met, *I* is 1, and otherwise 0; *lnCPI* is the threshold variable, γ is the threshold value; ε is the error term.

4.2 Variable Description

The threshold regression is carried out with the financial cooperation index based on the relevant indicator data of China and the 33 countries from 2000 to 2018. The descriptive statistics of the data are shown in Table 4.

Table 4. Descriptive Statistics

variable	sample size	mean	sd	Min	max	source
cor		0.00159	0.003518	2.45e-06	0.022934	Calculated
	49		9		8	
lnGDP		25.231	1.440	20.851	28.624	
lnCPI		4.601	0.864	2.107	8.839	
lnpgdp		8.678	1.466	5.272	11.054	
lnGNI		29.079	3.739	22.449	38.732	Worldbank database
lnhealth		2.538	1.490	0.156	6.772	
lnschoolh	627	3.671	1.245	1.754	4.729	
lndeath		1.804	0.597	0.119	2.923	
lnexim		13.145	1.706	8.261	16.509	Wind database
lnco2		11.132	1.501	1.501	14.705	
risk		2.017	1.135	1.000	4.000	The Belt and Road Initiative database
lninv		4.085	4.654	0.273	6.666	
lnexrate		3.256	3.108	-1.313	10.618	

4.2.1 Explained variable.

financial cooperation index (cor), which between China and the countries along the Belt and Road.

4.2.2 The core explanatory variable.

Gross Domestic Product (GDP), which can effectively reflect the comprehensive economic situation of countries along the Belt and Road and connect other indicators. The higher a country's gross domestic product, the stronger its economic strength, and the more sufficient capital it can use to maintain domestic stability, improve production efficiency, develop the financial industry, and invest in scientific research. The Gross Domestic Product is calculated in 2010 constant US dollars.

4.2.3 Threshold variable.

consumer price index index (CPI), which reflects the financial security and stability, inflation, production costs of producers and national living consumption level of countries. The increase in CPI in a country indicates an increase in domestic prices, national consumption levels, rising costs for science and education infrastructure and construction, and intensifying inflation, which is not conducive to export trade. The CPI index can measure a country's economic development level and residents' consumption level from a macro perspective. The consumer price index index is converted from 2010 constant US dollars.

4.2.4 Control variables.

Security perspective: The National Risk Index (risk) divides the economic and political risks of countries into 1-4 levels, with higher levels indicating higher national risks. The medical and health investment (health), the greater the medical investment, the better the national security conditions. The crude mortality rate per thousand people (death), the higher the population mortality rate, the poorer the safety conditions.

Production perspective: The total investment in fixed assets by the county (inv), reflects the completeness of production facilities in countries along the Belt and Road (in billions of US dollars). The per capita Gross Domestic Product (PGDP) of country, reflects the country's labor cost situation (calculated in 2010 constant US dollars).

Financial perspective: The total import and export trade volume (ex&im) between China and other countries, can directly reflect the close degree of bilateral trade volume and economic cooperation. It is calculated in 2010 constant US dollars (Unit: Thousand US dollars). The exchange rate between the local currency of the country (exrate), reflects the value of the local currency and the foreign trade situation. The Gross National Income (GNI) reflects a country's economic development capacity (in 2010 constant US dollars).

Knowledge perspective: Carbon dioxide emissions (CO₂) reflect the industrial emissions. The higher the value, the greater the industrial output and the more developed the high-energy consuming industries (Unit: thousand tons). The enrollment rate of universities (schoolh). When a country has a higher level of knowledge and technological development, its higher education development is better.

5 Empirical testing

5.1 Threshold Effect Regression and Result Analysis

Construct the above model and perform regression analysis using Stata15.0. First, conduct a robustness test, then test the threshold effect of the data, estimate the threshold number and threshold value, and conduct 300 repeated sampling to obtain the results.

Table 5. Threshold Effect Test Results

threshold variable	Number of thresholds	F	P	Critical values for different levels of significance		
				90%	95%	99%
CPI	First	54.53***	0.000	43.354 2	56.1918	78.6153
	Second	21.88	0.193	41.034 0	104.2751	358.0572

Note: *** indicates significant at the 1% level

Table 5 shows the regression results under two assumptions: single threshold and double threshold. Assuming that there is no single threshold, the detection value of F-statistic is 54.53, which is greater than the critical level of 1%; The P-value is 0.000, rejecting the original hypothesis and indicating the existence of the single threshold. Assuming that there is only the single threshold, the detection value of the F-statistic is 21.88, which is greater than the critical level of 1%; The P-value is 0.1933, indicating that there is no double threshold in this model. It can be seen that under this model, the impact of financial cooperation between China and countries along the the Belt and Road has the single threshold effect.

Based on the above empirical test results, we selects the single threshold for regression estimation, and the results are shown in Table 6:

Table 6. Threshold estimation results

model	Threshold estimate	95% confidence interval
single thresholds	6.1732	(6.0745 , 6.3266)

After testing, the threshold value is 6.1732, and the estimated results of the threshold effect regression parameters for each indicator are shown in Table 7:

Table 7. Threshold Effect Regression Results

variable	Coefficient estimation	t	P
lnGDP·I(lnCPI≤6.1732)	0.0021379***	3.86	0.000
lnGDP·I(6.1732<lnCPI)	0.0023937***	4.32	0.000
lnexim	-0.0009008**	-2.78	0.006
risk	0.0002491*	1.92	0.055

lnpgdp	0.0021087***	3.00	0.003
lnGNI	0.002056***	5.19	0.000
lnexrate	0.0009856**	2.29	0.023
lnco2	0.003077***	5.03	0.000
lninv	0.00000294	1.41	0.158
lnhealth	0.0009823***	3.89	0.000
lnschoolh	-0.0021344***	-4.42	0.000
lndeath	0.0052491**	3.11	0.002
F	10.411	Prob	0.000
R ²	0.3806		

Note: * * * indicates significant at the 1% level

As Table 7, variables other than fixed asset investment have a very significant impact on financial cooperation between China and countries along the Belt and Road, with most variables being significant at a level above 1%. When the threshold lnCPI is below 6.1732 and above 6.1732, the impact coefficients of lnGDP on the total import and export trade of China and other countries are 0.0021379 and 0.0023937.

5.2 Robustness inspection and LR inspection

We uses the fixed effect model as the test method to determine the robustness of the data set. Through the test, the P value is 0.0000, and the fixed effect should be selected for the test.

Table 8. Fixed Effect Results

variable	y
lnGDP	0.003(4.02)***
lnCPI	-0.001(-2.60)***
lnexim	-0.001(-2.96)***
risk	0.000(1.41)
lnpgdp	0.002(3.25)***
lnGNI	0.002(5.27)***
lnexrate	0.002(3.45)***
lnco2	0.003(3.96)***
lninv	0.000(2.25)**
lnhealth	0.001(4.61)***
lnschoolh	-0.002(-3.30)***
lndeath	0.006(3.14)***
Constant	-0.172(-9.72)***
R-squared	0.296

*** p<0.01, ** p<0.05, * p<0.1

The regression results are shown in Table 8. Most of the variables in the model pass the 1% significance level test, and the positive and negative characteristics of the variables are consistent with the above empirical results. The LR test results of the single threshold model are shown in Figure 1. The threshold value obtained above is 6.1732, indicating that the threshold value of the regression results in this article is consistent with the true threshold value and there is a threshold effect. The LR test results of the dual threshold model are shown in Figure 2, and there is no second threshold.

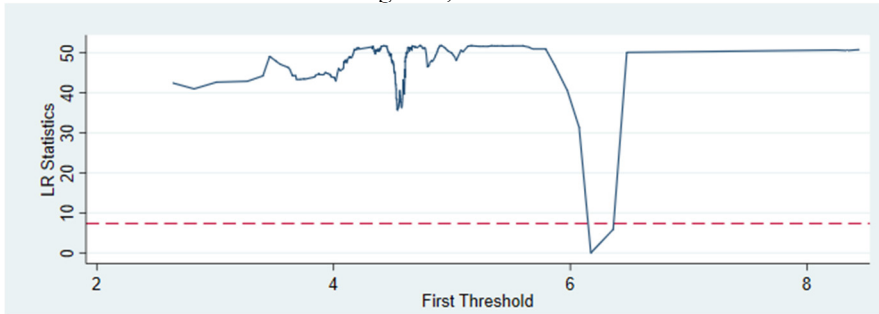


Fig. 1. First Threshold LR Inspection Results

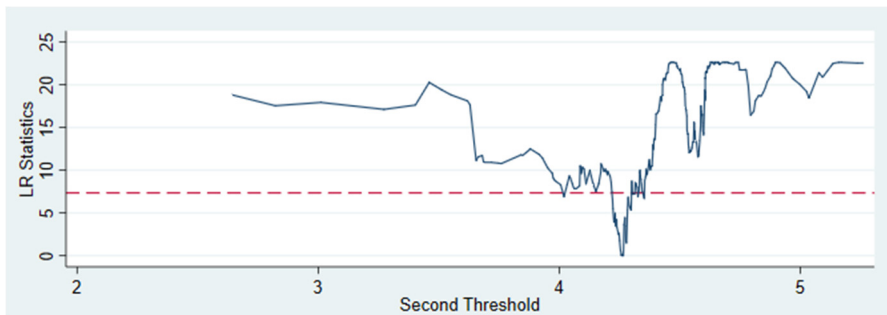


Fig. 2. Second Threshold LR Inspection Results

6 Conclusion and inspiration

6.1 Conclusion

6.1.1 The level of financial cooperation between China and countries along the Belt and Road in different locations varies.

China has the highest level of financial cooperation with countries from Southeast Asian; The level of financial cooperation with Russia, the United Arab Emirates, and Qatar, is relatively high; The level of financial cooperation with other countries in Eastern and Western Asia is the lowest, and the trend of financial cooperation is polarized. From the perspective of cooperation index, Singapore, Malaysia, and Thailand have the highest financial cooperation index and the closest financial cooperation with China.

6.1.2 GDP has a significant promoting effect on the level of financial cooperation, and its correlation coefficient further increases after CPI crosses the threshold.

The GDP development level of countries can play a positive promoting role in financial cooperation, and its promoting effect is influenced by the threshold effect of the country's CPI. When the CPI indicators of countries cross the threshold, the promoting effect of GDP on financial cooperation will once again increase. Therefore, countries with relatively developed economies and high consumer price indices are more inclined to engage in financial cooperation with China.

6.1.3 Analysis from the perspective of structural power.

From security perspective, the sample country's national risk index and crude mortality rate are significantly positively correlated with the financial cooperation index, indicating that countries with higher national risks are more inclined to engage in financial cooperation. There is a significant positive correlation between medical investment and financial cooperation index, indicating that economies with large public health investment are more inclined to develop financial cooperation.

From production perspective, the per capita gross domestic product is positively correlated with the financial cooperation index, indicating that China has closer financial cooperation with countries with strong national productivity and high living standards.

From financial perspective, the import and export volume is negatively correlated with the financial cooperation index, indicating that countries with small import and export trade volume with China are more inclined to engage in financial cooperation. There is a significant positive correlation between exchange rate and financial cooperation index, indicating that countries with lower local currency values have closer financial cooperation with China; There is a significant positive correlation between gross national income and the financial cooperation index, indicating that countries with high national income are more inclined to engage in financial cooperation.

From knowledge perspective, carbon dioxide emissions are significantly positively correlated with the financial cooperation index, indicating that industrialized countries are more inclined to engage in financial cooperation. The university enrollment rate is significantly negatively correlated with the financial cooperation index, indicating that countries with relatively backward education are more inclined to engage in financial cooperation.

6.2 Enlightenment

6.2.1 Pay more attention to financial cooperation with small countries.

Most of the countries along the Belt and Road are small countries. The financial cooperation index between China and such countries at a medium level. If continuous deepening of bilateral financial cooperation can effectively improve the level of bilateral economic development, it will have a positive impact on the deepening of financial cooperation and form a virtuous cycle.

6.2.2 Expand financial cooperation with relatively developed countries.

China has high financial cooperation efficiency and returns with countries with higher levels of economic development, such as Singapore and Thailand in Southeast Asia, Russia in Eastern Europe, and Qatar and the United Arab Emirates in Western Asia. The higher the level of economic development of countries along the Belt and Road, the stronger the role of promoting financial cooperation. Deepening financial cooperation with more developed countries can play a leading role in encouraging more countries to participate in cooperation projects and promoting the implementation of the Belt and Road initiative.

6.2.3 Differentiated financial cooperation strategies should be adopted for countries with different degrees.

We should expand cooperation in commodity markets and healthcare for high cooperation countries. High cooperation countries have lower CPI and healthcare investment, and the growth rate of financial cooperation level will significantly improve after the CPI indicator crosses the threshold. The increase in healthcare investment can significantly improve cooperation level. Therefore, strategies to promote consumption and improve medical conditions should be adopted in high cooperation countries. Expanding cooperation in the commodity market and healthcare can effectively help improve the level of cooperation.

Countries with moderate cooperation should deepen cooperation on commodity markets and production equipment. The CPI of countries with a moderate degree of cooperation is at a moderate level and their per capita GDP is relatively low. Bilateral cooperation should focus on raising their CPI level and per capita GDP. If the CPI indicator crosses the threshold, the growth of bilateral financial cooperation level can be effectively accelerated. The per capita gross domestic product can significantly improve the level of cooperation. Therefore, we should deepen cooperation in production equipment and promote the growth of per capita gross domestic product.

For low cooperation countries, industrial cooperation should be expanded to help them increase their gross national income and GDP levels. Carbon emissions and gross national income can significantly improve the level of cooperation, while low cooperation countries have lower carbon emissions and lower gross national income. Low degree of cooperation countries have high CPI, and the promoting effect of GDP growth on the level of financial cooperation has reached its peak. If we assist them in increasing GDP and improving domestic economic conditions, it will effectively improve the level of financial cooperation.

Acknowledgment

National Social Science Fund of China, Design of the 'the Belt and Road' Financial Cooperation Mechanism from the Perspective of Double Threshold (18XJY021).

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