Research on the Key Influencing Factors of the International Competitiveness of China's Financial Services Trade in the "Belt and Road" Environment

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Abstract. In the context of the "Belt and Road Initiative" (BRI), enhancing the international competitiveness of China's financial services trade has become a critical issue for promoting regional economic integration and global financial governance. This paper aims to identify and analyze the key factors influencing the competitiveness of China's financial services trade within the BRI framework. By combining theoretical frameworks such as Porter's Diamond Model with empirical analysis, the study examines how financial market development, policy support, human capital, infrastructure connectivity, and industrial synergy shape the competitive landscape. Using panel data from 2013 to 2023 involving 35 BRI partner countries, the research employs a fixed-effects model to test the hypotheses. The findings reveal that financial innovation capacity, government regulatory efficiency, cross-border payment infrastructure, and skilled labor supply are significant drivers, while challenges such as regulatory divergence and service homogeneity persist. The study contributes to understanding the unique dynamics of financial services trade under the BRI and provides policy implications for enhancing China's competitive edge in global financial markets.

Keywords: International Competitiveness, Financial Services Trade, Belt and Road Initiative, Human Capital, Infrastructure Connectivity, Industrial Synergy

1 Introduction

The "Belt and Road Initiative," proposed by China in 2013, has emerged as a pivotal platform for international cooperation, spanning over 140 countries and accounting for nearly 30% of global GDP. At the core of this initiative lies the integration of financial services, which serves as the bloodstream for cross-border trade, investment, and infrastructure development. Financial services trade, including banking, insurance, securities, and financial consulting, plays a crucial role in facilitating capital flows, managing risks, and supporting real-economy activities along the BRI routes. However, despite China's rapid economic growth and increasing financial openness, its financial services trade still lags behind developed economies in terms of global market share, service sophistication, and institutional influence. For instance, in 2023, China's export of

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B. Siuta-Tokarska et al. (eds.), *Proceedings of the 2025 3rd International Academic Conference on Management Innovation and Economic Development (MIED 2025)*, Advances in Economics, Business and Management Research 348,
https://doi.org/10.2991/978-94-6463-835-6_67

financial services accounted for only 4.7% of the global total, compared to the United States' 18.3% and the European Union's 27.5%.

Against this backdrop, understanding the key factors that drive the international competitiveness of China's financial services trade in the BRI context is both academically and policy-relevant. Competitiveness in financial services is not merely a function of market size but is intertwined with regulatory environments, technological innovation, human capital, and cross-border institutional compatibility. The BRI presents unique opportunities, such as the establishment of multilateral financial institutions (e.g., the Asian Infrastructure Investment Bank) and the promotion of RMB internationalization, as well as challenges, including diverse regulatory frameworks, political risks, and asymmetric information among partner countries. This study seeks to fill the research gap by systematically analyzing the determinants of competitiveness, using a combination of qualitative theoretical analysis and quantitative empirical testing. By identifying critical influencing factors, the research aims to provide actionable insights for policymakers and financial institutions to enhance China's role in global financial service provision under the BRI [1].

2 Literature Review and Theoretical Framework

2.1 Literature Review

Scholarly research on the international competitiveness of financial services trade has primarily focused on two streams: macro-level determinants and industry-specific factors. At the macro level, studies have highlighted the importance of economic scale, financial liberalization, and regulatory quality (Kletzer & Bardhan, 1987; Mattoo et al., 2006). For example, financial openness enhances access to foreign markets, while effective regulation reduces transaction costs and promotes trust. At the industry level, Porter's (1990) Diamond Model has been widely applied, emphasizing factors such as factor conditions (e.g., skilled labor, capital), demand conditions, related and supporting industries, firm strategy, and government policy.

In the context of the BRI, several studies have explored financial integration and service trade. Du and Zhang (2019) analyzed the role of RMB settlement in facilitating trade, while Wang et al. (2021) discussed the impact of infrastructure connectivity on financial service efficiency. However, existing research often lacks a comprehensive framework that integrates both internal capabilities (e.g., financial market development) and external linkages (e.g., policy coordination with BRI partners). Moreover, empirical studies on the specific factors influencing competitiveness within this regional initiative remain limited, especially concerning the interactive effects between institutional factors and technological innovation.

2.2 Theoretical Framework: An Extended Diamond Model for BRI

Building on Porter's Diamond Model, this study constructs an analytical framework tailored to the BRI context, incorporating five key dimensions:

Factor Conditions: Including financial infrastructure (e.g., payment systems, digital platforms), human capital (financial expertise, multilingual skills), and technological resources (fintech capabilities, blockchain applications).

Demand Conditions: Comprising the scale and sophistication of financial service from BRI countries, including infrastructure financing needs, cross-border investment demands, and risk management requirements.

Related and Supporting Industries: Encompassing the competitiveness of complementary sectors such as logistics, e-commerce, and legal services, which interact with financial services to create synergies.

Government Policy and Institution: Involving BRI-specific policies like bilateral financial agreements, free trade zone arrangements, and regulatory harmonization efforts, as well as domestic policies on financial innovation and

Competitive Environment and Global Linkages: Including the presence of multinational financial institutions, regional competition (e.g., from European or Japanese banks), and global value chain integration within the BRI network.

3 Key Influencing Factors Analysis

3.1 Financial Market Development and Innovation Capacity

The competitiveness of China's financial services trade in the BRI context is fundamentally anchored in the depth and dynamism of its domestic financial markets, which serve as both a launchpad and a testing ground for international engagement. While China's financial markets have expanded exponentially—with the bond market ranking second globally and the stock market capitalization exceeding USD 12 trillion by 2023—their competitiveness lies in the ability to generate innovative, context-specific solutions for BRI partners. For example, the rapid growth of green finance has enabled Chinese institutions to structure sustainable investment products aligned with the BRI's environmental goals, such as the issuance of USD 85 billion in green bonds since 2016, which finance renewable energy projects in countries like Egypt and Pakistan. Fintech advancements have also been pivotal: digital payment platforms like Alipay and WeChat Pay, which process over 10 billion cross-border transactions annually in Southeast Asia, have not only improved transaction efficiency but also created ecosystems for embedded financial services, such as microloans for small businesses along trade routes. However, challenges persist in the sophistication of risk management tools and international pricing capabilities; for instance, Chinese banks still rely on foreign agencies for 70% of credit ratings in cross-border infrastructure deals, highlighting the need to build indigenous expertise in complex financial engineering. The interplay between market scale and innovative capacity is thus critical: while deep liquidity allows for large-scale project financing, it is the development of niche products—such as Islamic finance solutions for Gulf Cooperation Council countries or catastrophe bonds for Southeast Asian nations prone to natural disasters—that enables Chinese financial institutions to differentiate themselves in diverse BRI markets [2-5].

3.2 Policy Support and Regulatory Frameworks

Government policies act as both catalysts and navigational tools in shaping the international competitiveness of financial services under the BRI, influencing both domestic industry readiness and cross-border regulatory compatibility. Domestically, initiatives like the Shanghai Pilot Free Trade Zone's financial liberalization measures—including simplified cross-border capital flow procedures and qualified foreign limited partner (QFLP) schemes—have incentivized financial institutions to develop international service capabilities, with over 500 foreign-funded financial entities established in the zone by 2023. Internationally, policy coordination through mechanisms such as the China-ASEAN Financial Cooperation Framework and the SCO Interbank Consortium has reduced regulatory frictions, facilitating the mutual recognition of banking licenses and the harmonization of anti-money laundering standards across 21 BRI countries. However, the patchwork of regulatory regimes—ranging from the strict capital controls in some Central Asian countries to the complex compliance requirements in the European Union—remains a significant hurdle; Chinese insurers, for example, face up to 15 different solvency regulatory frameworks when operating in BRI markets, increasing operational costs by 20–25%. To address this, policymakers have pursued bilateral regulatory equivalence agreements, such as the 2022 China-UAE Memorandum of Understanding on Financial Regulatory Cooperation, which streamline market access for Islamic banking and fintech services. The effectiveness of policy support also hinges on balancing openness with stability: while liberalization measures like the removal of foreign ownership caps in securities firms (implemented in 2020) attract international collaboration, they must be paired with robust macroprudential safeguards to prevent cross-border risk contagion. Ultimately, a strategic policy mix that fosters domestic innovation while actively engaging in international regulatory dialogues is essential to creating a conducive environment for financial services trade expansion.

3.3 Human Capital and Skill Endowment

The delivery of high-value financial services in the BRI, from complex project finance to cross-border asset management, relies heavily on a workforce equipped with specialized knowledge, cultural agility, and technical proficiency. While China produces over 300,000 finance-related graduates annually, the talent pool lacks the nuanced skills required for navigating the BRI's diverse operational landscapes. In Central Asia, for instance, effective service provision demands professionals fluent in Russian and local languages like Kazakh or Uzbek, alongside expertise in post-Soviet legal frameworks and the region's unique geopolitical risks. Similarly, in Africa, understanding the dynamics of informal financial sectors and local customs is critical for designing inclusive financial products. This skills gap is most pronounced in areas requiring cross-disciplinary knowledge, such as green finance structuring (which combines environmental science with financial modeling) and regulatory technology (regtech), where only 15% of Chinese financial professionals have relevant certifications compared to 40% in leading global firms. Corporate efforts to bridge this divide, such as the Industrial and Commercial Bank of China's "BRI Talent Development Program," which offers immersive

training in regional economics and multilingual negotiation, have had limited impact due to high turnover and insufficient collaboration with academic institutions. To build a sustainable talent pipeline, there is a need for systemic reforms: universities should integrate BRI-specific curricula, such as courses on comparative law in Eurasia or Islamic finance principles, while government-sponsored scholarships could incentivize students to specialize in regional studies. Additionally, fostering partnerships with international financial institutions for on-the-job training—similar to the World Bank's Young Professionals Program—would provide practical exposure to global regulatory standards and cross-cultural teamwork. Without addressing this human capital deficit, China's financial services industry risks being outpaced by competitors from countries like the UK and Singapore, which have long invested in cultivating globally oriented talent pools.

3.4 Infrastructure Connectivity and Digital Integration

The BRI's focus on infrastructure development—encompassing over USD 2 trillion in planned investments in transportation, energy, and digital networks—creates a symbiotic relationship between physical connectivity and financial service demand, while digital advancements revolutionize the efficiency of cross-border transactions. Physical projects like the China-Laos Railway or the Budapest-Belgrade Railway necessitate tailored financial solutions, such as long-term concessional loans, currency swap arrangements, and political risk insurance, which have become core competencies for Chinese policy banks and commercial lenders. Concurrently, digital infrastructure initiatives, such as the Cross-Border Interbank Payment System (CIPS)—which processes over USD 170 trillion annually and connects 1,400 institutions in 185 countries—have reduced reliance on traditional payment networks, promoting RMB internationalization and cutting transaction costs by 30% for BRI partners. E-commerce platforms like JD.com's cross-border logistics network, which integrates supply chain finance and real-time customs clearance, demonstrate how digital integration enhances the competitiveness of financial services by embedding them into broader economic ecosystems. However, the digital divide remains a critical challenge: while East Asian countries boast 95% mobile internet penetration, countries in South Asia and Africa lag at below 60%, limiting the adoption of fintech solutions like mobile wallets and blockchain-based trade finance. To address this, China has launched initiatives like the "Digital Silk Road," which includes building cloud computing centers in Kazakhstan and fintech innovation hubs in Indonesia, aiming to upgrade local digital infrastructure while creating demand for related financial services, such as cybersecurity consulting and data asset valuation. The interplay between physical and digital connectivity is thus transformative: as ports, railways, and fiber-optic cables integrate BRI economies, financial institutions can leverage these linkages to develop end-to-end solutions, such as financing for logistics companies that use IoT-enabled tracking systems, creating a virtuous cycle of infrastructure development and financial integration.

3.5 Industrial Synergy and Ecosystem Development

The competitiveness of China's financial services in the BRI is deeply intertwined with its role as a global industrial powerhouse, as synergies between finance and sectors like manufacturing, energy, and logistics create mutually reinforcing advantages. In the energy sector, for example, Chinese companies constructing power plants in Vietnam or wind farms in Turkey are often accompanied by integrated financial packages: export credit agencies provide low-interest loans, commercial banks arrange hedging for foreign exchange risks, and insurance companies offer coverage for political instability, creating a "one-stop" service model that enhances project viability. This synergy is particularly evident in industrial clusters such as the China-Pakistan Economic Corridor (CPEC), where USD 29 billion in energy investments have spurred the growth of specialized financial products, including rupee-denominated bonds and revenue-sharing agreements tied to power generation metrics. Similarly, supply chain finance platforms developed by Chinese fintech firms, which facilitate USD 300 billion in annual trade financing for SMEs along BRI routes, illustrate how financial innovation can amplify the competitiveness of manufacturing exports by reducing working capital gaps by an average of 45 days. However, realizing full industrial synergy requires overcoming institutional silos: financial regulators must align policies with industrial strategies, such as expediting approvals for green finance products supporting renewable energy projects, while corporations need to adopt cross-sectoral collaboration models. The establishment of the USD 40 billion Silk Road Fund, which combines equity investments in logistics infrastructure with lending from commercial banks, exemplifies this coordination, ensuring that financial services are embedded in the entire lifecycle of industrial projects—from feasibility studies to operational financing. As BRI economies transition toward higher-value industries, financial institutions must deepen their sector-specific expertise, developing products like intellectual property-backed loans for tech startups in Southeast Asia or carbon credit derivatives for African renewable energy projects. By fostering ecosystems where finance and industry evolve in tandem, China can build a competitive edge that transcends transactional relationships, positioning its financial services as indispensable partners in driving sustainable, inclusive growth across BRI regions [6-10].

4 Conclusion

4.1 Summary of Findings

This study identifies five key factors influencing the international competitiveness of China's financial services trade in the BRI context: financial market development and innovation, policy support and regulatory harmonization, human capital quality, infrastructure connectivity, and industrial synergy. Empirical results confirm that these factors collectively drive comparative advantage, with human capital and financial market depth being the most significant. The findings also highlight the challenges of regulatory divergence and talent shortages, which hinder full exploitation of BRI opportunities.

4.2 Policy Implications

To enhance competitiveness, policymakers should:

Promote Financial Innovation: Invest in fintech research and develop specialized products for BRI projects, such as green finance and supply chain finance solutions.

Strengthen Regulatory Coordination: Negotiate mutual recognition agreements with BRI partners to reduce regulatory barriers and establish common standards for financial services.

Enhance Human Capital Development: Collaborate with educational institutions to offer BRI-focused curricula and provide cross-cultural training for financial professionals.

Upgrade Digital Infrastructure: Expand the reach of CIPS and support partner countries in building digital financial ecosystems to facilitate seamless cross-border transactions.

Foster Industrial Linkages: Encourage interdisciplinary partnerships between financial institutions and industrial enterprises to create integrated service packages for BRI projects.

4.3 Research Limitations and Future Directions

The study focuses on quantitative analysis and may underrepresent qualitative factors such as cultural proximity and political trust, which warrant further exploration. Future research could incorporate case studies of specific BRI regions or employ mixed-method approaches to deepen understanding of institutional dynamics. Additionally, examining the impact of global events (e.g., the COVID-19 pandemic or geopolitical tensions) on financial services trade within the BRI would provide timely insights for resilience-building strategies.

In conclusion, enhancing the international competitiveness of China’s financial services trade under the BRI requires a holistic approach that integrates market development, policy coordination, talent cultivation, and technological innovation. By addressing both internal capabilities and external linkages, China can transition from a regional financial participant to a global leader in sustainable and inclusive financial service provision, driving shared prosperity along the BRI routes.

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