

Research on International Financial Cooperation under the “One Belt and One Road” Strategy

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Abstract—International financial cooperation occupies a pivotal position in the "One Belt and One Road" strategy. Its development is the basis and prerequisite for the smooth implementation of the "One Belt and One Road" strategy. However, the current differences in the level of economic development among the countries along the route, the low level of financial cooperation credit, and the lack of huge financial support and other issues are not conducive to the "One Belt and One Road" construction. This article explores these issues and put forward several suggestions for strengthening international financial cooperation and leading the construction of the "One Belt and One Road".

Keywords—international financial cooperation; "One Belt and One Road"; problems; measures

I. INTRODUCTION

In accordance with changes in the world economic situation, the overall domestic and international situation was coordinated. In 2013, General secretary Xi Jinping put forward the "The Belt and Road" initiative. In 2015, China issued the "The vision and action to promote the construction of the Silk Road Economic Belt and the maritime Silk Road in 21st Century", which provides new opportunities for China's economic and trade development and promotes the common development of our country and the world economy [1]. It not only provides a new platform for China's financial cooperation with countries along the "One Belt and One Road", but also promotes friendly relations between countries that help each other. In general, the "One Belt and One Road" strategy proposed by the country helps solve the problem of excess domestic production capacity, expands China's sales market, optimizes the economic structure, and meets the needs of countries and regions along the route, which contributes to the economic restructuring of countries along the route, increase labor employment rate [2]. The cooperation and development of the regional economy must be carried out with financial cooperation and support. Finance is an important guarantee for the "One Belt and One Road" road

linkage and is a direct carrier of the "One Belt and One Road" currency circulation. Only carry out international financial cooperation effectively, can we meet the huge capital needs in the implementation of the "One Belt and One Road" strategy [3]. The high level of financial development and efficient allocation of resources are the key to the harmonious development of both finance and economy

II. IMPLEMENTATION OF THE “ONE BELT AND ONE ROAD” STRATEGY

The development of international finance has a close relationship with the economic development of various countries. Under the current conditions of stable economic development in various countries, the financial markets of various countries have gradually matured and the new international financial system is brewing. The inadaptability of the old international finance in coping with the financial crisis and the subprime mortgage crisis [4] has become increasingly prominent, and traditional international finance is facing an impact. With the effective implementation of the "One Belt and One Road" strategy, the cooperation model has received increasing attention from the international community and triggered an upsurge of international public opinion [5]. As shown in the figure below, since the beginning of 2013, the network volume has grown rapidly year by year. In 2015, the network volume increased by 153.9% compared with that of 2014. In 2016, it increased by 330.2% compared with 2015, and within 4 months from 2017, it will be able to catch up with the overall network volume level of 2016.

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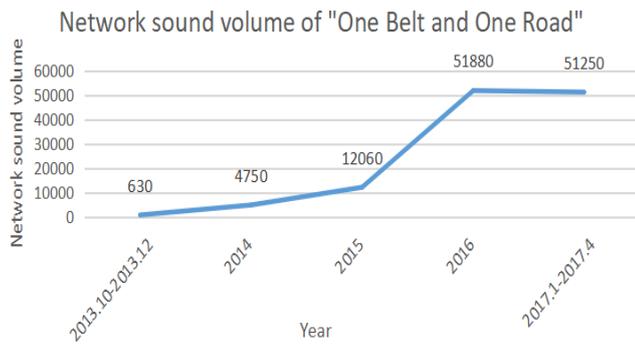


Fig. 1. Network sound volume of "One Belt One Road"

Secondly, the Ministry of Commerce announced the investment cooperation between China and the countries along the "One Belt and One Road" in 2017. As shown in the following figure, China's investment in 2016 was \$14.53 billion, accounting for 8.5% of the total for the same period. There are new investments in 59 countries along the "One Belt and One Road" route, totaling \$14.36 billion, accounting for 12% of the total for the same period, an increase of 3.5% over the same period of last year, mainly for Singapore, Laos, Malaysia, Pakistan, Indonesia, Russia, Vietnam, Kampuchea and the United Arab Emirates.

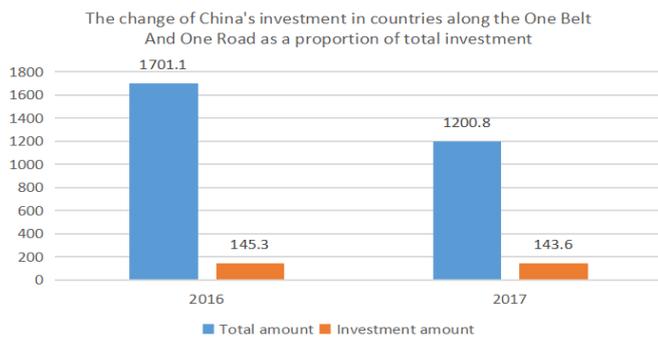


Fig. 2. The change of China's investment in countries along the One Belt and One Road as a proportion of total investment

According to the data released by the Ministry of Commerce, in the case of overseas mergers and acquisitions, as shown in the chart below, in the case that Chinese companies' overall overseas mergers and acquisitions projects have dropped by 50% and overall transaction volume has dropped by 10.26%, Chinese enterprises in 2017 carried out 62 mergers and acquisitions in countries along the "One Belt And One Road" line, with an investment of \$8.8 billion, accounting for 9.1% of the total, compared to \$6.44 billion in 2016, accounting for 6.2% of the total for the same period, an increase of 2.9%, of which PetroChina group and China Huaxin invested \$2.8 billion to jointly acquire 12% stake in Abu Dhabi oil company of UAE as the largest project. In addition, with overall investment declining by nearly 30%, investment in countries along the "One Belt and One Road" only fell by 1.2%, which also indicates the support of relevant national policies to countries along the "One Belt and One

Road" line [6].

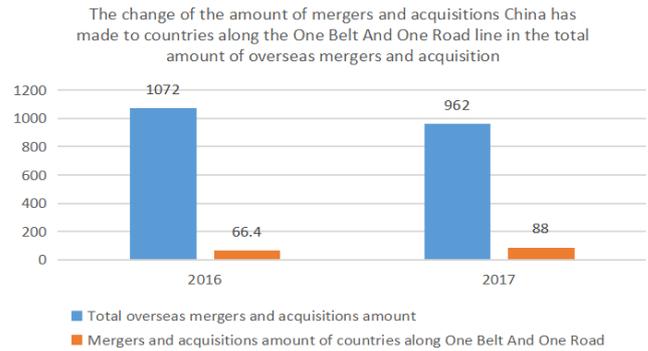


Fig. 3. The change of the amount of merger and acquisitions

As the "One Belt and One Road" strategy has received increasing attention and the fruitful achievements of cooperative countries along the line in terms of finance and economy, it is expected that more countries will join the team in the future. On this basis, continuing to conduct international financial cooperation in an in-depth and effective manner is a realistic option for realizing the coordinated development of the countries along the "One Belt and One Road" and promoting the reform of the economic system [7]. It is also the guarantee for the continued success of the "One Belt and One Road" strategy, and the primary problem that China and countries along the belt and road need to solve together.

III. PROBLEMS EXISTING IN INTERNATIONAL FINANCIAL COOPERATION UNDER THE "ONE BELT AND ONE ROAD" STRATEGY

Under the impetus of economic globalization, accelerating international financial cooperation and promoting the rapid economic and trade development of the "One Belt and One Road" region is an inevitable choice for countries along the route to jointly develop and respond to the international financial crisis [8]. However, the intricacies of the international environment make the implementation of this strategy face a series of constraints and obstacles. The main manifestations are:

A. Significant Differences in Economic and Cultural Levels of Countries along the Route

The "One Belt and One Road" runs through the Eurasian Continent, the East Asia-Pacific Economic Circle, and the West-European economic map, mainly in Asia and Central and Eastern Europe. Since 1998, East Asian countries have made continuous attempts in regional currency swaps, the development of Asian bond markets and regional foreign exchange reserves, and eventually made positive progress, which has reinforced the foundation of financial cooperation among East Asia regions [9]. However, the "One Belt and One Road" countries are mostly developing countries. According to the World Bank classification of countries according to income level, only 18 countries in the "One Belt and One Road" countries belong to high-income countries, 22 countries belong to middle- and high-income countries, and

23 countries belong to low- and middle-income countries and 2 countries belong to low-income countries. Despite the rapid economic development, the average unemployment rate in the "One Belt and One Road" countries is still as high as 8.73%, which is not only higher than the average unemployment rate in the world (5.93%), but also higher than the average unemployment rate in high - income countries (7.37%). As shown in the table below, currently the employment of the labor force in the countries along the "One Belt and One Road" (46) is dominated by the service industry. In 2014, the average agricultural employment rate in countries along the "One Belt and One Road" was 24.77% (world average 30.57%), the average industrial employment rate was 23.52% (world average 24.20%), and the service industry employment rate averaged 51.25%, higher than the world average (45.02%). Among them, the countries that mainly rely on agricultural employment are mainly distributed in Southeast Asia, South Asia, and Central Asia. These countries have relatively low income levels, and use agriculture as a pillar industry with a low degree of industrialization [10]. The countries where the industrial employment rate is higher than the agricultural employment rate (Singapore, Bahrain, Israel, the Czech Republic, etc.) are mainly distributed in West Asia, North Africa, and Central and Eastern Europe. The main characteristics of these countries are more abundant resources or higher income levels.

TABLE I. DISTRIBUTION OF MAJOR INDUSTRIES IN COUNTRIES ALONG THE "ONE BELT AND ONE ROAD"

Category of industry	Country and region
Agriculture	Southeast Asia, South Asia, Central Asia
Industry	Qatar
Service industry	Other 46 countries

Due to the large differences in the environment, industry distribution, culture, technological innovation, and economic and financial development in East Asian countries, there are significant differences in the pursuit of interest distribution, program decision-making, choice of economic system, and economic policy preferences [11]. Therefore, in different countries with different levels of development, there are also different standards and requirements for cooperation in the supply chain industry. For example, the inconsistency of procedures such as customs transportation, logistics, warehousing, and inspection will inevitably create obstacles for cooperation between countries [12].

B. Poor Credit for Financial Cooperation, and the Market Environment is not Ideal

Credit is the foundation for the establishment of financial cooperation. The poor credit rating of banking financial institutions and poor credit indirect financing conditions pose great risks to financial cooperation. At present, China's financial cooperation with countries along the route is aimed at preventing financial risks [13]. However, the level of financial cooperation is not high, and the lack of financial strategic planning and step-by-step implementation to realize long-term financial and monetary integration goals is concrete program. In addition, the financial market environment in

some countries along the route is not ideal, including complex religious beliefs, frequent political turmoil, tense ethnic relations, incomplete laws and regulations, large exchange rate fluctuations, low government efficiency, and limited corporate development, which will restrict financial cooperation. The opening up will increase investment costs and extend the project cycle, thus hindering the promotion of "One Belt and One Road" strategy.

C. Large Investment Demand and Lack of Huge Financial Support

It is estimated that between 2010 and 2020, \$8 trillion will be needed for infrastructure construction in Asia to support the current level of economic growth, and an additional \$300 billion will be required for regional infrastructure construction. However, currently the capital adequacy of financial institutions is low, and the main funds provided by the Asian Infrastructure Investment Bank, the BRICS Development Bank, and the newly established Silk Road Fund [14]. The initial authorized capital of the BRIC Development Bank and the Asian Infrastructure Investment Bank are each with \$100 billion, the initial subscribed capital was \$50 billion each, the Silk Road Fund was only \$40 billion, and the total capital of the three major development financial institutions was \$240 billion, which was a great difference from the investment demand of \$8 trillion. The huge financing gap in the "One Belt and One Road" strategy, the large amount of funds required, and the long cycle period make it difficult to achieve the goal of comprehensive infrastructure construction and interconnection.

IV. ENHANCING INTERNATIONAL FINANCIAL COOPERATION AND LEADING THE CONSTRUCTION OF "ONE BELT AND ONE ROAD"

A. Innovate the International Financial Cooperation Model and Actively Adjust the Industrial Layout

Although the cultural level, political and financial policies, economic development, and trade status of countries along the route are all different, what can be identified is the issue of trade cooperation, infrastructure construction, economic system reform, development and utilization of energy resources in the "One Belt and One Road" strategy all need effective financial support. Therefore, changing the previous model of investment promotion and export encouragement, abandoning the government intervention model, promoting capital sources, forms of cooperation, economic system reform and innovation, and actively adjusting the industrial layout so that the market's invisible hand can fully utilize its decisive role in the allocation of resources [15]. At the same time, it will expand domestic demand, create import demand, and form an emerging economic development model in which domestic investment and consumption will grow in synergy. So new blood is injected to create a more market-oriented environment.

B. Strengthen International Financial Cooperation and Reduce the Level of Unemployment in some Countries along the Route

Under the implementation of the "One Belt and One Road" strategy, countries with higher unemployment rates should actively seek new economic growth points to increase jobs opportunities, actively open up the market to participate in international trade, and give full play to the advantages of the country's geographic resources, such as some countries have rich mineral fuel resources [16], and are good at investment portfolios and venture capital investment [17]. In addition, they can encourage the creation and development of private companies and improve the professional skills of workers so that they can not only undertake manufacturing in other countries but also face the challenges of the high and new industry. It is a good way to guiding labor force to match the new direction of industrial development to reduce the friction in the job market. Moreover, other countries should actively provide assistance and strengthen cooperation with these countries. On the one hand, they can create more job opportunities and relieve pressure on high-unemployment countries. On the other hand, they can help develop new markets, reduce economic costs and bring greater benefits. At the same time, it can effectively promote the construction of the "One Belt and One Road" and lead the countries along the route to common development.

C. Broadening Diversified Financing Supply Channels and Replenishing Huge Funding Gaps

To solve the problem of serious shortage of funds, on the one hand, it is necessary to give full play to the role of the Asian Infrastructure Investment Bank, the BRICS Development Bank, and the Silk Road Fund to provide long-term funding [18]. On the other hand, it should innovate financing model, be good at using funds, and expand private funds, social capital participation channels, such as the use of Internet finance, PE funds and other channels to participate in investment. They can also encourage pension funds, social security funds, and insurance companies to participate in infrastructure investment. In addition, they should be good at observing differences in the financing structure of different countries and regions along the route. Some countries have a high proportion of indirect financing, while other countries prefer direct financing. Then gather these information [19] to make up for each other's weaknesses, make reasonable decisions and ease capital needs in accordance with local conditions.

D. Formulate Laws and Regulations to Prevent Risks in International Financial Cooperation

The countries along the "One Belt and One Road" are mainly developing countries. The overall economic strength is not strong, and the repayment ability is limited. In addition, there are no sound laws and regulations as well as a complete supervision mechanism. These factors make international financial cooperation have certain investment risks and credits risk [20]. Therefore, using the Internet platform to establish an

information sharing mechanism, complete the cooperation and supervision system, enhance personnel exchanges, and

deepen communication and cooperation among countries are realistic demand for preventing international financial cooperation risks and promoting the benign utilization of resources [21]. In addition, countries along the route can jointly establish a unified supervision standard and an efficient supervision and coordination mechanism, perfect the credit management system, make full use of the risk aversion of the insurance industry, identify potential risks in time, make effective decisions [22]. Then formulate risk management plan in advance to enhance the security of international financial cooperation.

V. CONCLUSIONS AND PROSPECTS

Economic globalization has brought the world economy into a phase of rapid development. Only through multi-channel cooperation can we meet challenges and seek development in the tide of globalization. The important concept of the "One Belt and One Road" is in keeping with the requirements of the development of the times. The implementation of this strategy has not only contributed to the development of China's Silk Road, but also is a new model that China has put forward to strengthen international economic cooperation and promote the common development of countries along the route. Of course, the construction of the "One Belt and One Road" and the support of international finance are inseparable. Although there are some problems such as various countries with different economic levels, lack of huge financial support, and investment and cooperation risks, with the Chinese government's vigorous promotion support, the joint efforts of countries along the line and the in-depth development of international financial cooperation, "One Belt and One Road" construction has achieved fruitful results and qualitative leaps. It is believed that in the near future, more countries will participate in the construction of the "One Belt and One Road" and share the positive benefits of this great idea.

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