

An Analysis of the International Financial Cooperation in the “The Belt and Road” Initiative

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Abstract: With the step-by-step promotion of ‘The Belt and Road’ initiative, financial cooperation plays a key role in the relationship of countries along the route. This paper analyzes the financial cooperation in ‘The Belt and Road’ initiative based on the overview of current situation of financial cooperation. In the end of the paper, it puts forward the countermeasure proposal on strengthening the international financial cooperation.

Introduction

In March 2015, the National Development and Reform Commission, Ministry of Foreign Affairs and the Ministry of Commerce officially released Vision and Action on Jointly Building Silk Road Economic Belt and 21th Century Maritime Silk Road, which shows the fundamental principles, thoughts and direction of Chinese government in ‘The Belt and Road’ initiative. It was also the specific policy that implemented the concept of ‘The Belt and Road’ initiative into national opening to the outside world. The Belt and Road is base on inter regional economic cooperation. It links the regions which includes South Asia, Southeast Asia, West Asia, Central Asia and Europe along the route, which furthers regional economic integration. On the one hand, since the economic crisis in 2008, current world pattern is greatly restructured. Developing countries have been newly-flourished and have been gradually becoming the main force to boost the world economic growth, especially that the China-based developing countries played significant roles in economic recovery. Financial crisis has brought a negative influence on the world economy but has also brought national and regional economic cooperation opportunities at the same time. On the other hand, China’s economy has stepped into new normal development stage, facing the slowing-down economic growth, transformation of development mode and economic restructuring. This kind of new situation impelled China to positively adjust the economic structure, transform economic development mode and seek for new growth momentum. ‘The Belt and Road’ initiative provided a good solution to those problems, not only to explore a new path of economic growth in China and provide a new channel to solve the problems of excess production capacity, but also to help China to achieve the re-balance of regional development as well as the coordinated development in Midwest. Finance is the important carrier for regional economic integration. Deepening the financial cooperation among regions along the route is of great significance in ‘The Belt and Road’ initiative. During the construction of basic infrastructure along the route, to build up railway, highway, airport, hydropower station and other projects requires huge financial support, which needs the nationally effective financial cooperation.

The problems of financial cooperation in ‘The Belt and Road’ initiative

With the development of economic globalization, the relevance between China and the world economy is getting higher and higher. The establishment of regional financial institutions and the development of regional financial cooperation complement each other. In September 2010, our state leaders formally proposed the establishment of Shanghai Cooperation Organization Development Bank (Shanghai Cooperation Bank), which has obtained the response of major countries. In October 2013, president Xi attended the APEC summit and proposed an initiative to set up an Asian Infrastructure Investment Bank (AIIB). Up to October 2016, more than 80 counties have applied to join it. In July 2014, the BRICS Development Bank was formally established. Under the background of ‘The Belt and Road’ initiative, more and more regional financial institutions will be set up, which will promote and deepen the cooperation between China and neighboring counties.

Since ‘The Belt and Road’ initiative was proposed, the foreign direct investment net inflows of countries along the route have sustained an upward trend. China has a close trade relationship with all countries along the route. According to statistic, China has directly invested \$14 billion and \$530 million to 53 countries along the route. The total value of contracts signed by Chinese enterprises to relevant 61 countries has reached \$126 billion and \$30 million dollar, which hit record high. The increasing volume of trade put forward new requirements to settlement methods. Most member countries hope to find a more convenient payment means, which provide a good realistic foundation for regionalization of RMB. In 2011, People’s Bank of China and other six ministries jointly released Notice on Expanding RMB Settlement Areas for Cross-border Trade, which greatly expanded the scope of RMB cross-border settlement. The proposal of ‘Silk Road Economic Belt’ initiative pushed the internationalization of RMB to a new height. The extension of RMB regionalization couldn’t do without bilateral currency swap and trade settlement between China and some member states of ‘The Belt and Road’. Bilateral currency swap not only played a positive role in maintaining financial stability and stimulating bilateral trade and investment but also had an influence on the China’s trade activities with countries along the route. Since 2008, People’s Bank of China has signed bilateral local currency swap agreement with Central Bank, monetary authority and European Central Bank in Malaysia, Indonesia, Singapore, Uzbekistan, Thailand and Turkey. The total amount was more than 2500 billion RMB. In 2010, China signed trade local currency settlement agreement with National Central Bank in Russia and Belarus, allowing the use of local currency or RMB for settlement in border trade and general trade. Up to the end of 2013, People’s Bank of China has signed local currency settlement agreement with Central Bank in nine countries and local currency settlement in border trade agreement with Central Bank in seven countries. In October 2015, RMB Cross-Border Interbank payment System (CIPS) (phase I) operated online successfully. It provided capital clearing and settlement service for financial institutions at home and abroad in RMB cross-border and offshore business. The first direct participants included Industrial and Commercial Bank of China, Agriculture Bank of China, Huaxia Bank, Hong Kong and Shanghai Bank (China), Citibank (China) and other 19 domestic and foreign banks. In addition, indirect participants included 38 domestic banks and 138 foreign banks in Asia, Europe, Oceania, Africa and other regions. In November of the same year, International Monetary Fund (IMF) announced that the RMB will be included in the SDR basket. It came into effect on October 1, 2016. RMB became the fifth currency to be included in the SDR basket after the dollar, the euro, the yen and the pound. It took up 10.92% of total amount of SDR and ranked third, which meant that it exceeded the yen and the pound (the dollar was 41.73%; the euro was 30.93%; the yen was 8.33%; the pound was 8.09%).

Due to the impact of differentiation of economic situation, the monetary policy in developed economies varied further. The Fed withdrew from the quantitative easing. On the contrary, Central Bank in Europe and Japan increased easing in this year. The monetary policy in newly-emergent markets also differentiated. Under the pressure of high inflation, currency devaluation and capital outflow, Russia and Brazil implemented the policy that sustained the increase of interest. In face of slowing-down economic growth, Mexico and South Korea cut down the interest. Capital accelerated its cross-border flow under the influence of differentiation. In addition, non-economic factors such as geopolitical influence also couldn't be ignored. International financial market had significant volatility.

Finance develops unevenly in domestic regions. China has implemented the reform and opening policy, mainly aimed at southeast coastal areas, for many years. As a result, central and western areas are relatively backward. Therefore, regional differences are huge, which results in the imbalance in distributing financial resources, which further leads to imbalance in regional financial development. Moreover, for their own benefit, many local governments and financial departments don't have a strong willingness for financial cooperation. All of problems mentioned above are not conducive to the implement of 'The Belt and Road' initiative and the financial cooperation among regions.

Finance develops unevenly in countries along the route. The countries along the route mainly reside in Asia and Europe. Except for some developed countries, the financial systems of most countries in Asia are dominated by commercial banks and supervised by governments. They have a high dependence on financial institutions. At the same time, the development degree and the mobilization of financial resources in Asian financial market are far less than those in European financial market. As a result, it's very difficult to cope with the highly value-added and high-risk development of financial industry. The consistency of financial development of participants is highly emphasized in regional financial cooperation in 'The Belt and Road'. Therefore, the inconsistency of financial development among participants will hinder the financial cooperation.

Under the framework of financial system in The Belt and Road, financial cooperation needs interactions among financial market, financial institutions and financial supervision. However, the huge and complex industrial chain in 'The Belt and Road' lacks perfect financial model, and the system as well as the policy constraints the financial cooperation. It leads to low level of basic infrastructure construction. Then, many countries adopt the closed development mode, which has a negative influence on the communication and sharing of financial information. As a consequence, it's difficult to take the benefit of the multilateral financial cooperation platform to innovate the thinking mode and financing approaches, and finally to effectively build up the investment and financing mechanism in 'The Belt and Road' initiative. In addition, the regional financial cooperation is the target of 'The Belt and Road'. The huge economic transaction will be produced in this process. However, due to the lack of reasonable planning, the investor and recipient blindly pursue interest and misappropriate the construction fund, which fosters corruption.

With the expansion of financial cooperation and capital output in 'The Belt and Road' initiative, cross-regional financial institutions face new problems. Regional financial cooperation has brought the increasing correlation of the business transaction among financial institutions. It accelerates institution integration and reconstruction as well as the formation of huge industrial chain and capital chain. But once the industrial chain or capital chain is broken, there will appear Domino effect, which results in both capital loss and more severe regional financial crisis. Therefore, under the background of 'The Belt and Road' initiative, it will become the major problem faced by regional financial cooperation that how to strengthen regional financial risk

monitoring and prevention for the purpose of stable regional financial environment and safe trade activities.

The suggestion on promoting financial cooperation in ‘The Belt and Road’

‘The Belt and Road’ initiative not only reflects China’s opening policy but also further links up interconnection policy so as to adapt to sustained development of major member states. The establishment of standardized FTA for financial cooperation with countries along the route guarantees the integration of financial support strategy in Chinese FTA. Also, it builds up a transparent and standardized market for business transaction between China and countries along the route. In addition, it can reduce the transaction cost in production and trade across border as well as enhancing trade interconnection efficiency of different levels of industries. What’s more, it can make trade more convenient and improve regional basic infrastructure so as to promote the regional financial cooperation along the route.

Currently, the world economy develops slowly and unevenly. The monetary policy tends to differentiate. Those lead to currency instability, dramatic fluctuation of exchange rate and bulk commodity price. The capital flows in disorder. All of those have become uncertain factors in global financial market. With the respect of volatile global market, the value of RMB in recent years is relatively stable and slowly appreciates. Based on the strong backing of adequate foreign exchange reserves, RMB is gradually recognized and accepted by neighboring countries and even the whole world. It has become the hard currency. ‘The Belt and Road’ initiative is rich in context. One of its important compositions is to strengthen currency circulation. Therefore, to expand the cross-border use of RMB and accelerate the pace of RMB internationalization is the premise for smooth development of One Belt and Road. At the same time, it is able to effectively provide capital support for this strategy construction through this. The internationalization of RMB makes trade and investment among countries along the route more convenient. Also, it helps China avoid the loss resulted from fluctuation of exchange rate in the process of communication with countries along the route. Thus, it reduces the capital transaction cost, enhances the ability to resist the financial risks and finally wins the higher international competitiveness, which provides affluent fuel for the promotion of ‘The Belt and Road’ initiative.

The sustained development of ‘The Belt and Road’ cannot do without innovation. So do regional financial cooperation. Combining macroeconomic financial policy, enhancing the financial innovation capability can effectively improve regional economic development and stimulate industrial potential in financial sector, thereby achieving development goals. With the respect of economic globalization and deepening reform of domestic economy system, China need promote regional financial cooperation in ‘The Belt and Road’ initiative through innovation. It’s a huge and complex systematic project to build up basic infrastructure, exploit energy and resources and conduct trade cooperation. It needs strong financial support. Countries along the route may be different in political policy, the level of economic development and financial policy. Therefore, when we promote international financial cooperation, we need to encourage the innovation of project design and docking as well as the innovation of obtaining capital sources. The traditional export-oriented mode that encourages export and attracting investment cannot support the construction of ‘The Belt and Road’. Only the new open economy system is built up can ‘The Belt and Road’ be constructed favorably. Similarly, the government-depending mode should be abandoned. We need deepen innovation and reform of the economic system. We also need to allow market to fully play its decisive role in the resources allocation so as to create a more market-oriented environment for the construction of ‘The Belt and Road’. In order to achieve

goals mentioned above, we need to expand domestic demand and form the emerging economic system which features in highly-efficient and coordinated growth of domestic investment and consumption. It can create more demand for import and the opportunity of foreign investment and development. Meanwhile, we also need abandon the out-of-balance strategy and construct new economic system “Five in One” that is composed of market economy, democratic politics, advanced culture, harmonious society and ecological civilization so that we are able to construct a harmonious environment for ‘The Belt and Road’.

Conclusion and prospect

China is worthy of the name of the territorial power, populous countries and political power. However, China is always merely the participant and compliance in global economic development. In the past, China has the weak great power consciousness. While the proposal of ‘The Belt and Road’ initiative means that China is awaken and has a more and more clear view for globalization. China will take more economic responsibilities in the stability of world economic development and growth, and our country will play a greater role in the process of financial cooperation in ‘The Belt and Road’ . We should stand at a new starting point to open ourselves to outside world and fully stimulate domestic economic restructuring. It’s the development path which China should choose!

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