

## Research on Trade Potential and Foreign Trade Development of Countries along the Belt and Road Initiative

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**Abstract:** The deepening implementation of the “One Belt, One Road” strategy has greatly changed the trade relationship between China and countries along the route. The article first analyzes the trade potential of countries along the “Belt and Road” and proposes several suggestions on the development of China's foreign trade in the context of “Belt and Road”, including promoting the construction of free trade zones, optimizing trade structure, and promoting cultural exchanges. With a view to fully releasing the trade potential of countries along the “Belt and Road”.

### 1. Introduction

China's “One Belt, One Road” strategy has been positively influenced by countries along the route, and has played a significant role in the economic development of countries along the route. Under the development concept of mutual benefit and win-win cooperation, China and the countries along the “Belt and Road” have jointly established good trade and cooperation relations, deepened cooperation in various fields, and promoted the continuous increase of total import and export trade. However, objectively speaking, the trade potential of countries along the “Belt and Road” has not yet been fully utilized, and it is necessary to actively adjust the countermeasures for foreign trade development.

### 2. Analysis of Trade Potential of Countries along the “Belt and Road”

#### 2.1. Analysis model of trade potential along the route

Since the “One Belt, One Road” strategy was put forward in 2013, China has continuously strengthened trade cooperation with countries along the route, actively explored the trade potential of countries along the route, and achieved many important results. In the process of evaluating the trade potential of countries along the route, the trade gravity model can be used to judge the development space of trade cooperation between China and countries along the route by estimating the average value of trade potential. The mathematical expression of the trade gravity model is: (1)  $T_{ijt} = f(x_{ijt}, \beta) \exp(v_{ijt} - u_{ijt})$ .  $T_{ijt}$  is the trade amount,  $x_{ijt}$  is the influencing factor of trade amount,  $v_{ijt}$  and  $u_{ijt}$  are the bilateral error term and non-negative error term respectively, which is the actual trade amount. (2)  $T_{ijt}^* = f(x_{ijt}, \beta) \exp(v_{ijt})$ , which calculates the trade potential value. (3)  $TE_{ijt} = T_{ijt} / T_{ijt}^* = \exp(-u_{ijt})$ , where  $TE_{ijt}$  is the trade efficiency, which is equal to the ratio of the actual trade volume to the trade potential value. The domain is  $[0, 1]$ . (4)  $\gamma = \sigma_u^2 / (\sigma_u^2 + \sigma_v^2)$ , where  $\gamma$  is the proportion of trade efficiency error in the overall error. (5)  $u_{ijt} = \alpha z_{ijt} + e_{ijt}$ , where  $\alpha$  is the band evaluation parameter,  $z_{ijt}$  is the exogenous variable, and  $e_{ijt}$  is the random disturbance term. This model is used to estimate the time-varying trade efficiency of each sample and analyze the trade potential of countries along the line [1].

#### 2.2. Empirical study on trade potential of countries along the line

In the process of conducting empirical research, the main influencing factors of trade potential along the line are determined as gross national product, geographical distance, trade complementarity index, language and culture differences, transportation conditions, government

efficiency, and whether a free trade agreement has been signed. The sample data selects the trade data of China along the “Belt and Road” from 2002 to 2017. The sample data of 11 countries including Afghanistan, UAE and Syria are missing, and they are excluded to avoid affecting the analysis results. Finally, 61 national sample data were obtained from the UNCONTRADE database, the National Accounts Statistics database, and the CEP II database. The applicability of the trade gravity model was tested before the empirical analysis. Based on the test results, the stochastic frontier time-varying model in the trade gravity model was used for empirical research. From the empirical analysis, China's GDP coefficient along the “Belt and Road” countries has a positive correlation and exceeds 1%. In addition, China's total population has a positive correlation with trade volume, transportation conditions and trade volume. Other influencing factors, such as distance, language and culture differences, are negatively correlated with trade volume[2].

### **2.3. Analysis of trade potential potential along the route**

Specifically, it can evaluate the trade potential of countries along the “Belt and Road” from two aspects: first, trade efficiency, and second, trade growth potential. Among them, trade efficiency reflects whether trade cooperation between the two countries is smooth and whether there are many trade barriers. If trade efficiency is low, it indicates that there is still room for improvement in trade potential between the two countries. Judging from this empirical analysis, from 2002 to 2012, the trade efficiency of China and the countries along the “Belt and Road” increased first, then decreased and then increased. After the “One Belt, One Road” strategy was proposed in 2013, Maintain steady growth. From the analysis of the growth potential of trade volume, the biggest trade potential is South Korea, followed by Russia and the third is Malaysia. This is mainly related to the convenient transportation, close cultural exchanges and the signing of free trade zones. Overall, China's trade potential along the “Belt and Road” countries still has room for improvement[3].

## **3. Countermeasures for Foreign Trade Development under the Background of “Belt and Road”**

### **3.1. Promote the construction of national free trade zones along the route**

Based on the above analysis, the implementation of the “One Belt, One Road” strategy has greatly improved the economic and trade cooperation between China and the countries along the route, but the current trade potential has not yet been fully realized. In the current adjustment process of foreign trade development strategy, we should first actively promote the construction of free trade zones along the line, give play to the role of the free trade zone, and deepen economic and trade cooperation between China and countries along the route. The signing of a free trade zone can play an important role in enhancing the trade potential of both sides. China has advocated jointly establishing a large network of free trade zones with countries along the route in the “Belt and Road” strategy, promoting mutually beneficial trade policies and promoting the economic and trade development of all countries. At present, China has signed free trade zones with South Korea, Singapore, New Zealand, Pakistan and other countries, and is actively engaged in free trade zone negotiations with other countries. In the process of building a free trade zone, we should comprehensively consider the specific conditions of countries along the “Belt and Road”, adhere to the principle of orderly advancement, conduct targeted consultations with countries, identify strategic fulcrum countries, and play from the fulcrum countries to the region. The role of laying up, continuously expanding the coverage of the free trade zone network. For example, in South Asia, India can be chosen as the fulcrum country. In the West Asia region, Iran can be chosen as the fulcrum country to broaden the regional value chain by playing the role of the fulcrum country.

### **3.2. Optimize the trade structure of countries along the route**

General Secretary Xi Jinping pointed out in the “Nineteenth National Congress” that China has fully entered a new normal of high-quality economic development. The implementation of the “One Belt, One Road” strategy is also based on the needs of domestic supply-side reforms to help

domestic enterprises to explore and participate. A new platform for international competition. Under the pressure of eliminating backward production capacity and tackling pollution problems, enterprises must actively explore the path of transformation and upgrading. In the process of participating in the construction of the “Belt and Road”, there are also problems such as concentrated trade commodities and mostly labor-intensive industries. The low added value of products is not conducive to enhancing the attractiveness of cross-border trade. Therefore, in the current stage of development, China should work with countries along the “Belt and Road” to accelerate the adjustment of trade structure, change production and supply methods, and promote the transformation and development of processing trade. By gradually increasing the proportion of high value-added products, promoting the development of labor-intensive industries to capital-intensive industries, and increasing the market share of high-end markets. In addition, in the process of adjusting the trade structure, it is also necessary to pay attention to the trade complementarity between China and the countries along the line, and to achieve the goal of cooperation and win-win by enriching product categories and reducing trade frictions.

### **3.3. Strengthening infrastructure construction cooperation**

In the implementation of the “Belt and Road” strategy, China has actively participated in national infrastructure construction projects along the route to provide technical and equipment support to countries along the route. For China's trade cooperation with countries along the route, only by continuously improving the transportation conditions along the line, can we reduce barriers to trade cooperation and promote more extensive trade cooperation between the two sides in various fields. Therefore, China should continuously strengthen cooperation with countries along the “Belt and Road” in the field of infrastructure construction. In this regard, we should improve the resource acquisition capacity from the distribution of resources between China and the countries along the “Belt and Road”. Countries along the “Belt and Road” have rich mineral and oil and gas resources. By accelerating infrastructure construction and improving resource acquisition capacity, it is conducive to promoting trade development between the two sides. In addition, China should actively promote the construction of economic corridors such as the AIIB and the Ideas Fund, and establish smoother transportation networks, trade networks and financial networks with countries along the route to consolidate the basis of trade cooperation between the two sides.

### **3.4. Enhance cultural exchanges along the route**

In the process of trade exchanges between China and countries along the Belt and Road, it will inevitably involve political and cultural exchanges. In the process of further advancing the “One Belt, One Road” strategy, we must always adhere to the principle of mutual respect, equality and mutual benefit, and deepen the differences in political systems by deepening the exchange of learning in the cultural field, so that China and countries along the line can conduct trade in more fields. Cooperation. In this regard, the Confucius Institute can be built as an entry point to enhance cultural understanding between the two sides by strengthening exchanges and cooperation at the educational level. At the same time, we must also vigorously cultivate bilingual talents to clear up language barriers for the development of actual trade activities. In the process of extensive cultural exchange activities, we should make good use of new network media tools, use the network to break the gap between time and space, enhance cultural exchanges among people along the line, learn from each other and learn from the excellent traditional culture, and deepen mutual understanding. On, enhance trust and better cooperation.

### **3.5. Improve the trade efficiency of countries along the route**

At present, the trade efficiency of many countries along the “Belt and Road” is relatively low, indicating that there is still room for development of large trade potential. For some countries with high trade efficiency, such as China and South Korea, China and Russia, due to the large scale of trade between the two sides, they also have greater trade potential. In the current stage of foreign trade development, we should continue to maintain and consolidate the cooperative relationship of high-efficiency markets, and actively analyze the factors affecting trade efficiency, and promote

trade between China and countries along the route by clearing obstacles in the political system and transportation facilities. Overall improvement in efficiency. In this regard, actively conducting consultations and negotiations on issues needed in the trade process is the fundamental way to enhance trade efficiency between the two sides. On this basis, we should speed up the adjustment of relevant trade systems, improve the level of trade facilitation along the “Belt and Road”, and enable more countries to actively participate in trade activities and promote the improvement of trade efficiency.

#### **4. Conclusion**

In summary, by analyzing the trade potential between China and the countries along the “Belt and Road”, we can better grasp the main factors affecting the trade potential between the two countries, and provide reference for the adjustment of China's foreign trade development strategy. On this basis, by expanding cooperation areas, comprehensively carrying out political, economic and cultural exchanges, and actively building good trade cooperation relations with countries along the route, it can inject new vitality into the economic development of both sides and promote regional economic prosperity.

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