

The Impact of the Belt and Road Initiative on China's Economy

Jiahao Wu^{1,*}, Zhengxin Zhou²

¹ Dalton College, High School affiliated to Peking University, Beijing, China

² Arts and Sciences College, Ohio State University, Columbus, United States of America

* Corresponding Author Email: Zhou.3948@osu.edu

Abstract. This study examines the impact of the Belt and Road Initiative (BRI) on China's economy by analyzing its influence on economic growth, foreign trade, and foreign direct investment (FDI), offering insights into China's evolving role in the global economy and contributing to broader discussions on economic diplomacy and regional integration. This article adopts data analysis method to analyze in detail the changes in the outflow and inflow of foreign direct investment (FDI) and China's trade volume; The research results show that the "the Belt and Road" initiative has made significant contributions to China's economic development by expanding infrastructure investment, opening new trade routes and strengthening foreign direct investment relations with partner countries, but it also faces debt risks, uncertainty of investment returns, geopolitical risks and other risks. The results of this study have deepened our understanding of how large-scale international strategies such as the "the Belt and Road" initiative affect domestic economic performance and global influence.

Keywords: Belt and Road Initiative, China's economy, foreign direct investment, trade, economic growth.

1. Introduction

In 2013, China proposed the Belt and Road Initiative, which covers the Silk Road Economic Belt and the 21st Century Maritime Silk Road. This initiative aims to promote policy communication, infrastructure connectivity, unimpeded trade, financial integration and people-to-people exchanges among countries along the route, and to build a community of interests, a community of destiny and a community of responsibility. The Belt and Road Initiative brings new opportunities and space for China's economic development, and has a profound impact on the adjustment of domestic economic structure and the expansion of international economic cooperation. This article comprehensively analyzes the multi-dimensional impact of the Belt and Road Initiative (BRI) on China's economy, aiming to provide a comprehensive perspective for understanding the complex impact of the Belt and Road Initiative on China's economy.

The BRI has garnered extensive scholarly and economic discussion in recent years. A diverse array of economic viewpoints has led various experts to examine the possible consequences of this phenomena. Most studies indicate that the BRI significantly contributes to China's economic growth by expanding trade channels and creating new markets. Wang et al. assert that expenditures by the BRI on infrastructure enhance connectivity, hence promoting investment and trade [1]. This leads to enhanced productivity and sustained economic growth in China, while also fostering greater stability in the region. A multitude of studies has been undertaken to examine the economic obstacles and hazards faced by the BRI. These problems and hazards encompass potential financial entrapments, geopolitical conflicts, and environmental concerns. Zhang et al. study reveals several obstacles that must be addressed to sustain the momentum of BRI projects, especially in poor countries [2]. Moreover, the accumulation of excessive debt jeopardizes China's economic stability. This paper takes foreign direct investment from China as its main topic of discussion, focusing on the inflow and outflow of foreign direct investment (FDI) and its impact on China's trade volume, trying to find out the opportunities and challenges facing China's economy under the "Belt and Road" initiative.

2. China's FDI Inflows Under the Belt and Road Initiative

2.1. Industry Distribution Characteristics of FDI Inflows

FDI flowing into China from the Belt and Road countries has distinct characteristics in industry distribution. Observe Fig. 1, with a share of about 35%, manufacturing has become the primary area for absorbing FDI inflows [3]. With its complete industrial system, huge production scale and continuously improving technological level, China's manufacturing industry has become a strong attraction for investors from countries related to the Belt and Road Initiative. For example, Continental, a German auto parts company, has invested in and built factories in China, bringing advanced production processes and management models, helping China's auto manufacturing industry to develop towards high-end development [4].

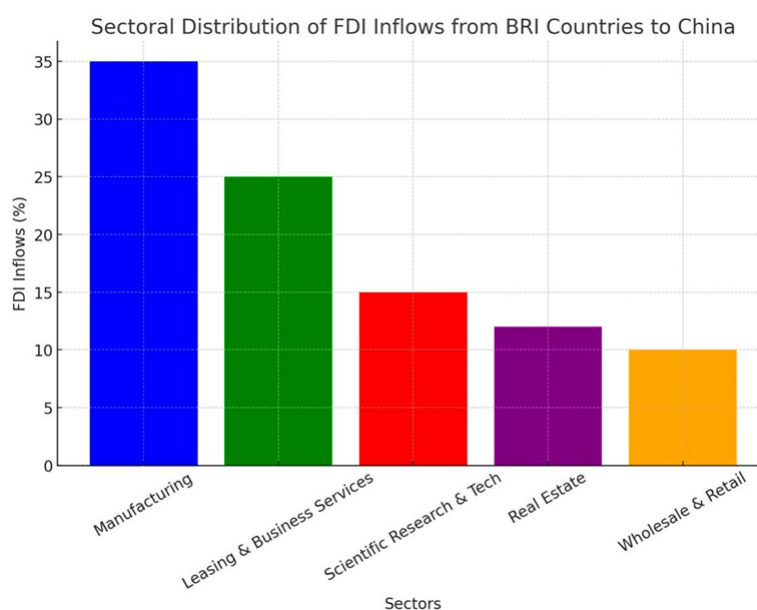


Figure 1. Industry distribution of FDI inflows to China from countries related to the "Belt and Road" (Photo credit: Original)

The leasing and business services industry ranked second with a share of 25%. As China's economy moves towards high-quality development, the demand for professional business services has exploded [5]. For example, well-known consulting companies in Singapore have entered China to provide professional services such as strategic planning to domestic companies, improving the international operation level of Chinese companies.

The FDI inflow attracted by scientific research and technology accounts for about 15%. At a time when global competition in scientific and technological innovation is fierce, countries related to the Belt and Road Initiative have deepened cooperation with China in the field of scientific research. Israeli technology companies have cooperated with Chinese research institutions to conduct research in the field of artificial intelligence and accelerate the transformation and application of scientific research results [6].

The FDI inflows in the real estate industry and wholesale and retail industries account for about 12% and 10% respectively. Foreign investment in real estate development brings new ideas, such as Dubai's real estate development model provides a reference for China's urban complex construction; in the wholesale and retail industry, foreign-funded enterprises' advanced supply chain management promotes the upgrading of China's consumer market, such as Metro's optimization of logistics and distribution systems in China [2].

2.2. Positive Effects of FDI Inflows on China's Economy

A large amount of FDI inflows provides key financial support for various industries in China, alleviating the bottleneck of industrial development. For example, China's electronic information manufacturing industry has upgraded from low-end assembly to high-end chip manufacturing and other links due to foreign investment in purchasing advanced equipment and introducing high-end talents, thereby improving product added value and market competitiveness [7].

Foreign-funded enterprises bring advanced technology and management experience. In the field of new energy vehicles, Korean companies' battery technology cooperates with Chinese car companies to promote domestic companies' independent innovation. BYD and other companies have made breakthroughs in battery life and safety, pushing China's new energy vehicle industry to the forefront of the world.

FDI inflows create a large number of jobs, from the front line of manufacturing production to high-end positions in the service industry, alleviating employment pressure [1]. At the same time, foreign-invested enterprises bring considerable tax revenue to the country. For example, the foreign-invested enterprise cluster in Shanghai provides financial support for urban infrastructure construction and public services.

3. China's FDI Outflow Under the "Belt and Road" Initiative

3.1. Scale and Trend of FDI Outflow

Since the implementation of the BRI, China's FDI outflow to the "Belt and Road" related regions has grown steadily. As shown in Fig. 2 "China's FDI outflow to the "Belt and Road" related regions from 2013 to 2022", the outflow level was relatively low in 2013, reaching about US\$80 billion in 2014, and then increased significantly, exceeding US\$150 billion in 2018 and climbing to about US\$200 billion in 2022 [8]. This demonstrates the determination and actions of Chinese companies to respond to the initiative and expand overseas markets, as well as the results of deepening economic cooperation and optimizing the investment environment between the two sides [8]. The trend also highlights China's strategic use of FDI to deepen its influence in key sectors abroad, support infrastructure development, and enhance trade connectivity as part of its long-term geopolitical and economic agenda under the BRI framework.

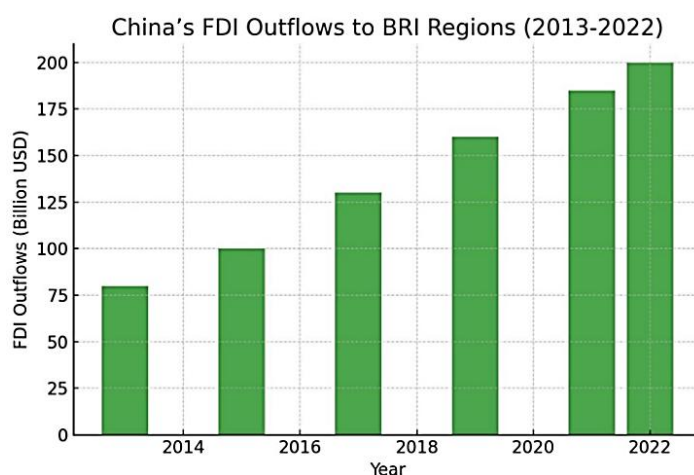


Figure 2. FDI outflow from China to the belt and road initiative-related regions from 2013 to 2022
(Photo credit: Original)

3.2. Driving Factors and Strategic Significance of FDI Outflow

Resource acquisition and market expansion: Some resource-dependent Chinese enterprises invest in the Belt and Road Initiative-related regions to ensure the supply of raw materials. For example, China National Petroleum Corporation participates in oil field development in Kazakhstan to ensure

a stable supply of energy [9]. At the same time, manufacturing enterprises actively go overseas to break through the limitations of the domestic market, such as Haier investing in factories in Southeast Asia to avoid trade barriers and increase product market share. With the development of China's economy, labor costs have risen, resource and environmental constraints have tightened, and some industries have shifted to the Belt and Road Initiative-related regions.

Enhance international influence and global resource allocation capabilities: Chinese companies have made large-scale overseas investments and participated in infrastructure construction and other projects to enhance their international influence. For example, China Railway Group's participation in the Southeast Asian high-speed rail project not only demonstrates China's infrastructure strength, but also enhances its voice in the international engineering contracting market [10]. Through global resource allocation, enterprises integrate international and domestic resources, such as Geely's acquisition of Volvo, to enhance its position in the global automotive industry chain.

4. Changes in China's Trade Volume Under the "Belt and Road" Initiative

4.1. Scale and Trend of Trade Volume Growth

The BRI has promoted the rapid growth of trade between China and "Belt and Road" related countries. From Fig. 3 "Trade volume between China and "Belt and Road" related countries from 2013 to 2022", it can be seen that the basic level of trade volume in 2013 reached about US\$1.2 trillion in 2014, and then steadily climbed to nearly US\$1.6 trillion in 2018 and jumped to about US\$1.8 trillion in 2022 [10]. This shows that the initiative has achieved remarkable results in promoting smooth trade, and trade facilitation measures have improved trade efficiency and stimulated trade vitality. The BRI has successfully expanded trade networks, facilitated infrastructure connectivity, and encouraged cross-border commerce. The steady growth even during global economic uncertainties indicates the resilience of China-BRI trade relations and the effectiveness of the initiative in promoting long-term regional cooperation.

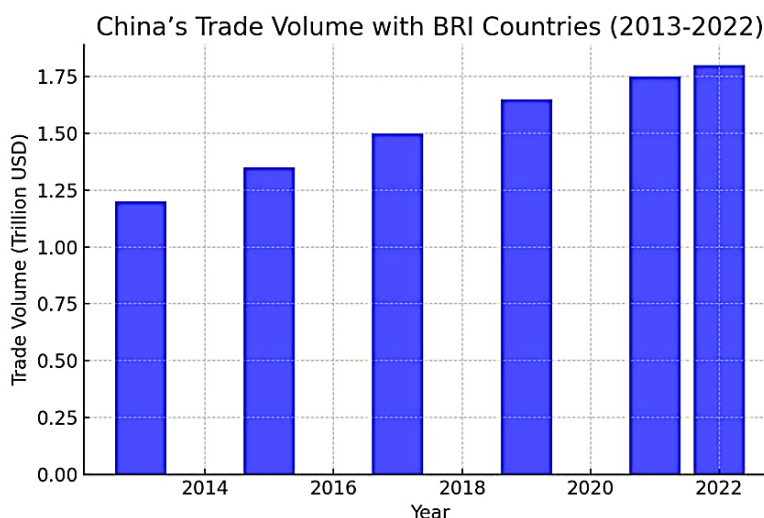


Figure 3. Trade volume between China and countries related to the belt and road initiative from 2013 to 2022 (Photo credit: Original)

4.2. Optimization and Upgrading of Trade Structure

The commodity trade structure between China and related countries is constantly being optimized. The export proportion of traditional labor-intensive products has decreased, while the export proportion of high-tech, high-value-added electromechanical products and high-tech products has increased [4]. For example, Huawei has invested in communication networks in Central Asian countries, and its 5G equipment exports have driven the increase in the international market share of Chinese communication technology products.

The construction of the Belt and Road Initiative has promoted close cooperation between China and related countries in the field of trade in services. In terms of tourism, the Belt and Road Initiative tourist routes are popular, promoting personnel exchanges and cultural exchanges; in the financial field, China and related countries have carried out currency swaps and cross-border payment cooperation to provide convenient financial services for trade and investment; in the field of education, the scale of mutual exchange of students has expanded, and academic exchanges have been frequent [5].

5. Potential Risks and Challenges of the Belt and Road Initiative to China's Economy

5.1. Debt Risk

In the cooperation on infrastructure construction of the Belt and Road Initiative, some projects have large investment scales and long payback periods, which may lead to debt risks. For example, some African countries have limited fiscal revenues. When participating in the construction of large-scale infrastructure projects, they may be overburdened with debt due to excessive borrowing [3]. If the project income does not meet expectations and the debt repayment capacity is limited, it may affect the recovery of China's related investment and bring instability to bilateral economic cooperation.

5.2. Uncertainty of Investment Returns

Overseas investment faces many uncertainties that affect investment returns. Political stability, policy and regulatory changes, and market demand fluctuations in different countries may cause investment projects to deviate from the expected track [2]. For example, investing in energy projects in the Middle East, the local political situation is turbulent and oil prices fluctuate, which may make it difficult to guarantee project returns.

5.3. Geopolitical Game

The Belt and Road Initiative may be affected by geopolitical games in its advancement. Some Western countries, out of strategic considerations, have unwarrantedly questioned and interfered with the construction of the Belt and Road Initiative in an attempt to hinder China's cooperation with relevant countries [7]. In Europe, some forces have set up obstacles to China's participation in infrastructure construction projects, affecting the advancement of projects.

6. Conclusion

The "Belt and Road" initiative has an all-round, deep and lasting impact on China's economy. In terms of FDI inflows, it brings capital, technology and management experience, and promotes industrial upgrading and innovation; FDI outflows help companies expand overseas markets, optimize resource allocation, and enhance international influence; the trade field has achieved an increase in volume and quality, and the structure has been continuously optimized. However, the promotion of the initiative faces challenges such as debt risks, uncertainty in investment returns, and geopolitical games. In the future, China needs to strengthen policy communication and coordination, promote infrastructure connectivity, optimize the trade and investment environment, and expand diversified cooperation areas. Enterprises should enhance their international operations and risk response capabilities. Through the efforts of all parties, the "Belt and Road" initiative will inject strong impetus into the high-quality development of China's economy and make greater contributions to building an open world economy.

Furthermore, future research could benefit from incorporating micro-level case studies or firm-level data to examine the effectiveness and sustainability of individual projects. Additionally, future

work should explore the social and environmental consequences of "Belt and Road" investments to provide a more holistic evaluation. Comparative studies involving both BRI and non-"Belt and Road" countries could also highlight the unique contributions of the initiative. Finally, applying more advanced econometric models or using longitudinal data could help uncover causal relationships and track changes over time, contributing to a deeper understanding of the "Belt and Road" evolving global impact.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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