

# Analysis of Identification and Supervision of Financial Risk Based on One Belt and One Road

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**Abstract:** With the continuous development and progress of social economy, people pay more and more attention to financial risks. Thus modern economy has close link with finance, and the One Belt and One Road is a new exploration of social economy. If the modern economy wants better development, One Belt and One Road construction should be brought into economic development. And it has an impact on trade financing and outward investment of enterprises. Therefore, if it wants to be carried out smoothly, the financial management mechanism should be improved. In this paper, a concrete analysis of the identification and supervision of financial risks will be made under One Belt and One Road construction.

**Keywords:** One Belt and One Road, Financial risk identification, Risk supervision, Analysis

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## 1 Introduction

Nowadays financial problems have become a hot topic, and finance is the key to the development of modern economy, thus One Belt and One Road construction is crucial to finance development. Therefore, it is inevitable to integrate financial management with One Belt and One Road construction in the development of modern economy. And related departments should give full support to One Belt and One Road construction, so as to accelerate the construction progress of One Belt and One Road. One Belt and One Road also promotes initiative for the national cooperation on production capacity. The regional trade financing and foreign

investment requires a huge capital investment as the basic support. In this case, One Belt and One Road construction will play an important role in it.

## 2 Analysis of the specific causes of financial risks in the process of One Belt and One Road construction

Financial circulation is of vital importance to One Belt and One Road construction, and it is also a connection between every process. The demand of enterprises for funds is gradually increasing with the development of modern economy, which is also the main reason for the financial risks in One Belt and One Road construction. And a detailed analysis of the financial risks will be carried out from the following three aspects: trade financing demand, enterprise investment needs and basic investment demand in One Belt and One Road construction.

### 2.1 Analysis of possible financial risks due to basic investment demands

First, the infrastructure investment demand includes transportation infrastructure, which can be divided into three parts, including port construction, highway reconstruction and railway reconstruction. So the required funds for transportation infrastructure construction are relatively large, and there may be some financial risks in the process of construction. Second is the reconstruction and upgrading of energy equipment, for example the exploration of resources, the production of mining equipment, the construction of power network coverage and oil and gas pipelines. Finally is network infrastructure construction, which includes the construction of satellite communication and electronic communication network. It can be

seen that the infrastructure construction related to One Belt and One Road has reached more than one trillion Yuan at this stage in China through research and analysis. Under the circumstances, a funding gap in infrastructure investment will be caused in One Belt and One Road construction, resulting in financial risks. However, the relative return on investment in the related infrastructure construction in One Belt and One Road is relatively long, and the development of the financial market in some countries along the road is not complete enough. Also, there is no relevant law to regulate this problem. It is concluded that some infrastructure investment systems are not sound enough in the process of One Belt and One Road construction, which may lead to some financial risks.

## **2.2 Analysis of possible financial risks due to trade financing demand**

We can see that the trade between various regions and the countries along the road is relatively frequent in the process of One Belt and One Road construction through research and analysis data, under which circumstances, the industrial structures can be complemented. The integration of some regions is relatively mature, and the trade with each other tends to be liberalization, trade exchanges with countries along the road have been made in agriculture, service industry and industry and on this basis, various trade cooperation has been launched. Take China's trade exports as an example, we will analyse the financial risks arising from trade financing demand. In recent years, the trade between China and other countries along the road has become more frequent, and the amount of funds for trade has also increased with the development of One Belt and One Road construction. China has gradually deepened the trades with some other countries along the road and is developing rapidly after the subprime crisis the US in 2008. At the same time, China has established an overseas economic and trade cooperation zone in the process of trade with other countries along the road. And trades between China and some other countries along the road have become increasingly close in the process of carrying out the strategy along the road. Trade in goods and services are an important part, and financial businesses such as large-scale mechanical equipment and credit insurance financing are also constantly developing. However, the pressure of the finance has also increased along with the development of the international financial trade, and the large demand for trade financing may bring about some

financial risks. What's more, RMB has joined special drawing right, the main strategy is fundamentally conducive to the further improvement of trade between China and cities along the road, but due to some factors, the RMB has not been widely used in the process of trade between the two sides, which is not conducive to the trade development and financial risk prevention and control of countries along the road<sup>[1]</sup>.

## **2.3 Analysis of possible financial risks caused by enterprises investment**

Many enterprises in China have gone out of door to achieve better development with the promotion and development of One Belt and One Road. Funds are the basic condition and source for the development of enterprises, the fund demand of enterprises is increasing while going out. Financial risks will be analyzed from the perspective of enterprise investment demand on the basis. All major enterprises in China can actively optimize the main investment, and the scale of investment in various regions is also rising at this stage. It can be known that the proportion of state-owned enterprises' investment at this stage has shown a downward trend, while the amount of private enterprises' investment has developed rapidly through research and analysis. In terms of the current development of domestic enterprises, the proportion of private enterprises and state-owned enterprises' foreign investment has basically reached a balance. Chinese enterprises' main foreign investment has changed, and the investment mode has also undergone some changes under the Belt and Road Initiative. The scope of investment has been expanded by various enterprises, which can effectively promote the internationalization of enterprises, but at the same time, it has more demand for the finance departments in the fund-raising mechanism, liquidation mechanism, insurance mechanism and other aspects. In the process of One Belt and One Road construction, the formulation of financing mechanism, liquidation mechanism, and insurance mechanism is not complete enough, and there are still some deficiencies. Specific analysis will be made from the following two points. First of all, there are still problems in transnational trade and cooperation in the process of One Belt and One Road construction, and the relevant management system is not perfect and there are relatively less institutional departments, which is not conducive to the construction and development of One Belt and One Road. Secondly, the trade along the countries is linked together in the process of One Belt

and One Road construction, but the countries along the road have cultural differences, and there are larger restrictions on the law and system, which cause difficult development in transnational trade<sup>[2]</sup>.

### **3 Financial risk identification and specific analysis based on One Belt and One Road**

One Belt and One Road has significant role in China's economic development, and is also an important framework for China's macro-economic development. Relevant personnel in our country have made planning and research for more than two years in order to carry out the One Belt and One Road construction better and faster, and finally completed the basic deployment of the One Belt and One Road, and are transitioning to the implementation stage. The One Belt and One Road construction must rely on support and cooperation with the help of government and relevant departments. From this point of view, there will be many difficulties and pressures in the One Belt and One Road construction process. The construction of it involves many countries' trade and economic exchanges. If different countries have divergence in interests, it is very important to properly solve the friction between countries. It is also the foundation for the long-term development of the whole region. Not only the financial needs of the countries along the road should be considered, but also the financial risks in the process of trade exchanges between the countries along the road should be paid attention to from the perspective of financial department. Only by accurately identifying the financial risks can the financial risk prevention and supervision work be carried out smoothly<sup>[3]</sup>.

#### **3.1 Specific analysis of exchange rate risk**

The exchange rate risk is a common risk and an important part in the market risk. It is specifically reflected in the foreign currency pricing, which refers to the loss and profit caused by the asset or liability value falling or rising due to the fluctuation of the exchange rate in the process of foreign currency pricing. The exchange rate risk generally appears in international trade or international investment and other financial activities. It is mentioned above that RMB has joined the SDR, but it is seen that the US dollar is still widely used in the process of trade between countries along the road after investigation and analysis, and it is also the most common pricing unit in international trade. Thus it can be seen that the use of RMB in international trade

contacts is limited. Besides, the financial risk level of many countries along the road is relatively high, and the currencies of many countries cannot be widely circulated internationally, which will also have certain restrictions on international trade, leading to instability of currency or large fluctuation of exchange rate. It is not conducive to the development of international trade. It is common that many countries along the road collect local currency to facilitate the operation of project investment. However, there may be exchange rate risk in later currency exchange process<sup>[4]</sup>.

#### **3.2 Specific analysis of credit risk**

The control of credit risk is the key point of the One Belt and One Road strategy, and it is also the prerequisites for the implementation of One Belt and One Road. Because the strategy of One Belt and One Road involves many countries along the road and these countries are widely distributed, the problem of national sovereign credit should be fully paid attention. And all countries along the road have different politics and systems. There will be some differences in sovereign credit among countries under the restriction of policy environment. Therefore how to maximize the economic benefits of capital operation with huge investment is the main problem at this stage. Some countries along the border have the risk of downgrading in the aspect of sovereign credit in the One Belt and One Road construction process. Many countries along the road will face the pressure brought by economic transformation in the process of foreign trade development. Although the strategy of One Belt and One Road brings abundant resources to the development of the country's trade, the internal structure is relatively simple. If the economic development is completely depended on the external market, there will also be great fluctuations, resulting in credit risk.

### **4 Analysis of specific strategies for strengthening the policy of financial risk supervision in the One Belt and One Road construction process**

The construction of the One Belt and One Road strategy provides an important platform for the trade exchanges between the countries along the road. It not only enhances the trade cooperation among all the countries along the road, but also facilitates the wide exchange of politics and economy between different countries during the One Belt and One Road construction process.

The financial department plays an important role in the One Belt and One Road strategy, and it provides important financial support for the construction of One Belt and One Road. There are also some problems in the One Belt and One Road construction process, such as some financial risks among all the countries along the road, thus it will directly affect the local economic development. The supervision of financial risks should be strengthened to ensure the stability of the local economy, and the relevant departments should refine and perfect the financial supervision policy so as to ensure the smooth implementation of the strategy<sup>[5]</sup>.

## 5 Conclusions

In summary, the strategy of One Belt and One Road has also been gradually transformed from preparatory stage to implementation stage along with the continuous development and progress of social economy. Because it involves many countries along the road, if the countries have divergence in interests, it will directly affect the construction process of the strategy. And there are many market risks in the process of trade between countries along the road, among which there are two typical risks including exchange rate risks and credit risks. Once the risk arises in the process of trade exchange, it will have an impact on the local economy. Therefore, the supervision of financial risks is crucial,

which is also the core of developing the strategy of One Belt and One Road<sup>[6]</sup>.

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